

BEFORE THE
PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

In the Matter of the Application of Sprint
Long Distance, Inc. for Authority to Provide
Resold and Facilities-Based Competitive
Local Exchange Service

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DOCKET NO. 2005-407-C

EXHIBIT C



FORM 10-K/A

SPRINT CORP – FON

Filed: April 29, 2005 (period: December 31, 2004)

Amendment to a previously filed 10-K

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549
FORM 10-K/A

☒

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004

OR

☐

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 1-04721

SPRINT CORPORATION
(Exact name of registrant as specified in its charter)

KANSAS
(State or other jurisdiction of
incorporation or organization)

**P.O. Box 7997,
Shawnee Mission, Kansas**
(Address of principal executive offices)

Registrant's telephone number, including area code

66207-0997
(Zip Code)

800-829-0965

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
FON Common Stock, Series 1, \$2.00 par value, and Rights	New York Stock Exchange
Guarantees of Sprint Capital Corporation 6.875% Notes due 2028	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file these reports), and (2) has been subject to these filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act) Yes ☒ No ☐

Aggregate market value of voting and non-voting common equity held by non-affiliates at June 30, 2004, was \$25,093,779,265.

COMMON SHARES OUTSTANDING AT FEBRUARY 28, 2005:

FON COMMON STOCK	
Series 1	1,392,712,636
Series 2	85,295,514

Documents incorporated by reference.

None

Explanatory Note

Sprint is filing this Form 10-K/A to amend Part III of its Annual Report filed on Form 10-K for the fiscal year ended December 31, 2004, which was previously filed with the Securities and Exchange Commission on March 11, 2005. The Form 10-K is being amended to include information that was to be incorporated by reference from its definitive proxy statement in connection with its annual meeting pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended ("Exchange Act"). Sprint's definitive Proxy Statement will not be filed with the Securities and Exchange Commission within 120 days of the end of the fiscal year ended December 31, 2004. Sprint is therefore amending and restating in their entirety Items 10, 11, 12, 13 and 14 of Part III of its Form 10-K. In addition, the cover page of the Form 10-K has been updated and amended.

In connection with the filing of this Form 10-K/A and pursuant to Rules 12b-15, 13a-14(a) and 13a-14(b) under the Exchange Act, Sprint is including currently dated certifications. This Form 10-K/A does not reflect events occurring after the filing of Sprint's Form 10-K on March 11, 2005 or modify or update the disclosure contained therein in any way other than as required to reflect the amendments discussed above.

All other items of the Form 10-K have not been amended and are simply reported herein.

Part I

Item 1. Business

The Corporation

Sprint Corporation, incorporated in 1938 under the laws of Kansas, is mainly a holding company, with its operations primarily conducted in its subsidiaries. Unless the context otherwise requires, references to "Sprint," "we," "us" and "our" mean Sprint Corporation and its subsidiaries.

Sprint is a global communications company offering an extensive range of innovative communication products and solutions, including wireless, long distance voice and data transport, global Internet Protocol (IP), local and multiproduct bundles. Sprint operates a 100% digital personal communications service (PCS) wireless network with licenses to provide service to the entire United States population, including Puerto Rico and the U.S. Virgin Islands, using a single frequency band and a single technology. Sprint, together with third party affiliates, operates PCS wireless systems in over 350 metropolitan markets, including the 100 largest U.S. metropolitan areas. Sprint's wireless service, including third party affiliates, reaches a quarter billion people. Combined with our wholesale partners and Sprint PCS Affiliates, we served a total of 24.7 million wireless subscribers at the end of 2004. Sprint currently serves approximately 7.7 million access lines in its franchise territories in 18 states. Sprint is selling into the cable telephony market through arrangements with cable companies that resell Sprint long distance service and/or use Sprint back office systems and network assets in support of their local telephone service provided over cable facilities. Sprint is one of the largest carriers of Internet traffic, and provides connectivity to any point on the Internet either through its own network or via direct connections with other backbone providers.

In the 2002 third quarter, Sprint reached a definitive agreement to sell its directory publishing business to R.H. Donnelley for \$2.23 billion in cash. The sale closed on January 3, 2003.

Sprint's website address is www.sprint.com. Information contained on our website is not part of this annual report.

Elimination of Tracking Stocks

On April 23, 2004, Sprint recombined its two tracking stocks. Each share of PCS common stock automatically converted into 0.5 shares of FON common stock. As of April 23, 2004, the FON Group and the PCS Group no longer exist, and FON common stock represents all of the operations and assets of Sprint, including Wireless, Local and Long distance.

Proposed Merger and Contemplated Spin-off

In December 2004, the boards of directors of Sprint and Nextel Communications, Inc. (Nextel) each unanimously approved a strategic merger combining Sprint and Nextel in what we intend to be a "merger of equals." When the proposed merger is completed, Sprint will change its name to Sprint Nextel Corporation and the Sprint Nextel common stock will be quoted on the New York Stock Exchange. Existing shares of Sprint common stock will remain outstanding as Sprint Nextel common stock, as Sprint is the acquiring entity for legal and accounting purposes. Under the terms of the merger agreement, at closing each share of Nextel class A common stock and Nextel class B common stock will be converted into shares of Sprint Nextel common stock and Sprint Nextel non-voting common stock, respectively, as well as a small per share amount of cash, with a total value expected to equal 1.3 shares of Sprint Nextel common stock. Nextel zero-coupon, convertible, redeemable preferred stock will be converted into Sprint Nextel zero-coupon, convertible, redeemable preferred stock.

The proposed merger is subject to shareholder approval, as well as various regulatory approvals. It is subject to other customary closing conditions and is expected to be completed in the second half of 2005.

Sprint and Nextel intend to spin-off Sprint's local telecommunications business after the proposed merger is completed. In order to facilitate the spin-off on a tax-free basis, the exact allocation of cash and shares of Sprint Nextel common stock that Nextel common stockholders will receive in the proposed merger will be adjusted at the time the merger is completed. The aggregate cash portion of the merger consideration is capped at \$2.8 billion.

Statements contained in this annual report relating to our business strategies, operating plans, planned expenditures, expected capital requirements, future dividend payments and other forward-looking statements regarding our business do not take into account potential future impacts of our proposed merger with Nextel or the contemplated spin-off of our local telecommunications business.

Business Environment

Sprint's operations are divided into three lines of business: Wireless, Local and Long distance operations. In the 2003 fourth quarter, Sprint undertook an initiative to realign internal resources (Organizational Realignment). This effort was implemented to enhance our focus on the needs and preferences of two distinct consumer types – businesses and individuals. This effort is enabling Sprint to more effectively and efficiently use its portfolio of assets to create customer-focused communications solutions. Sprint continues to measure its results using the current business segmentation, taking into consideration the re-aligned customer-focused approach in 2004.

The Organizational Realignment resulted in and could continue to result in decisions requiring restructuring charges and asset impairments. See Note 7 of Notes to Consolidated Financial Statements for more information relating to these activities.

Sprint operates in an industry that has been and continues to be subject to consolidation and dynamic change. Therefore, Sprint routinely reassesses its business strategies. Due to changes in telecommunications, including bankruptcies, over-capacity and the highly competitive pricing environment in all telecommunications sectors, Sprint has taken actions to appropriately allocate capital and other resources to enable sustaining cash contribution. Sprint routinely assesses the implications of these actions on its operations and these assessments may continue to impact the future valuation of its long-lived assets.

As part of its overall business strategy, Sprint regularly evaluates opportunities to expand and complement its business and may at any time be discussing or negotiating a transaction that, if consummated, could have a material effect on its business, financial condition, liquidity or results of operations.

In February 2005, Sprint reached a definitive agreement with Global Signal Inc. (Global Signal) under which Global Signal will have exclusive rights to lease or operate more than 6,600 communication towers owned by Sprint for a negotiated lease term which is the greater of the remaining terms of the underlying ground leases or up to 32 years, assuming successful re-negotiation of the underlying ground leases at the end of their current lease terms. Sprint has committed to sublease space on approximately 6,400 of the towers from Global Signal for a minimum of ten years. Sprint will maintain ownership of the towers, and will continue to reflect the towers on its Consolidated Balance Sheet.

Access to Public Filings and Board Committee Charters

Sprint provides public access to its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934. These documents may be accessed free of charge on Sprint's website at the following address: www.sprint.com/sprint/ir. These documents are provided as soon as is practicable after filing with the SEC. These documents may also be found at the SEC's website at www.sec.gov.

Sprint also provides public access to its Code of Ethics, entitled *The Sprint Principles of Business Conduct*, its Corporate Governance Guidelines and the charters of the following committees of its board of directors: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. The ethics code, corporate governance guidelines and committee charters may be viewed free of charge on Sprint's website at the following address: www.sprint.com/governance. They may also be obtained free of charge by writing to: Sprint Shareholder Relations, 6200 Sprint Parkway, Mailstop KSOPHF0302-3B206, Overland Park, Kansas 66251. If a provision of the ethics code required under the New York Stock Exchange corporate governance standards or the Sarbanes-Oxley Act is materially modified, or if a waiver of the ethics code is granted to a director or executive officer, the notice of such amendment or waiver will be posted on Sprint's website. While only the board of directors or the Audit Committee may consider a waiver for an executive officer or director, Sprint does not expect to grant waivers.

Certifications

The certifications of our Chief Executive Officer and Chief Financial Officer pursuant to Sections 302 and 908 of the Sarbanes-Oxley Act of 2002 are attached as Exhibits 31(a), 31(b), 32(a) and 32(b) to this annual report. We also filed with the New York Stock Exchange in 2004 the required certificate of our Chief Executive Officer certifying that he was not aware of any violation by Sprint of the New York Stock Exchange corporate governance listing standards.

Wireless

General

Wireless operates a 100% digital PCS wireless network with licenses to provide service to the entire United States population, including Puerto Rico and the U.S. Virgin Islands, using a single frequency band and a single technology. Wireless, together with third party affiliates, operates PCS systems in over 350 metropolitan markets, including the 100 largest U.S. metropolitan areas, and reaches a quarter billion people. Combined with wholesale partners and Sprint PCS Affiliates, Wireless served 24.7 million subscribers at the end of 2004. Wireless provides nationwide service through a combination of:

- operating its own digital network in major U.S. metropolitan areas using code division multiple access (CDMA), which is a digital spread-spectrum wireless technology that allows a large number of users to access a single frequency band by assigning a code to all voice and data bits, sending a scrambled transmission of the encoded bits over the air and reassembling the voice and data into its original format,
- affiliating under commercial arrangements with other companies that use CDMA, mainly in and around smaller U.S. metropolitan areas,
- roaming on other providers' analog cellular networks using multi-mode and multi-band handsets, and
- roaming on other providers' digital networks that use CDMA.

Wireless subscribers can use their phones through roaming agreements in countries other than the United States, including areas of:

- Asia Pacific, including China, Guam, Hong Kong, Taiwan, Thailand and New Zealand,
- Canada and Mexico,
- Central and South America, including Argentina, Bolivia, Chile, Ecuador, Guatemala, Paraguay, Peru, Uruguay and Venezuela, and
- Most major Caribbean Islands.

The total number of subscribers at year-end 2004 reflects an approximate 90 thousand reduction from the previously disclosed number. This was due to a 67 thousand overstatement of direct subscribers and a 23 thousand overstatement of Sprint PCS Affiliate subscribers. Subscriber counts reflect activated wireless handsets and other devices, excluding those activated for demonstration or testing purposes. As a result of internal analysis, Sprint recently concluded that previously-reported subscriber counts had inadvertently included a limited number of devices used for demonstration or testing purposes, and that this error had occurred over several years. Additional process controls have been established to prevent reoccurrence of this situation and, because the amount of the error is not material to any previously-disclosed information, this error has been corrected by adjusting the number of year-end 2004 subscribers.

Sprint's third generation (3G) capability allows more efficient utilization of the network when voice calls are made using 3G-enabled handsets. It also provides enhanced data services. The service, marketed as "Sprint PCS VisionSM," allows consumer and business subscribers to use their Vision-enabled PCS devices to exchange instant messages, exchange personal and corporate e-mail, send and receive pictures, play games with full-color graphics and polyphonic sounds and browse the Internet wirelessly with speeds up to 144 kbps (with average speeds of 50 to 70 kbps).

Sprint is continuing to execute its plans for faster wireless data speeds by deploying Evolution Data Optimized (EV-DO) technology across the Sprint Nationwide PCS Network. With average user speeds of 300-500 kilobits per second and peak rates of up to 2.4 megabits per second for downloads, EV-DO will provide mobile-device data speeds up to 10 times faster than on our current network. In addition, this technology is expected to deliver superior application and service performance on EV-DO-capable handsets and laptops equipped with EV-DO-enabled Sprint PCS Connection CardsTM. Sprint is targeting the first commercial roll-out of EV-DO in the 2005 second quarter and subsequent roll-outs throughout 2006. Additional traffic volumes related to EV-DO may require future capital expenditures.

Wireless supplements its own network through commercial affiliation arrangements with other companies that use CDMA. Under these arrangements, these companies offer wireless services under Sprint's brand on CDMA networks built and operated at their own expense. We call these companies Sprint PCS Affiliates. Generally, the Sprint PCS Affiliates use spectrum owned and controlled by Sprint. Sprint has amended its existing agreements with a majority of the Sprint PCS Affiliates to provide for a simplified pricing mechanism, as well as refining and changing various business processes. The amended agreements cover approximately 80% of the subscribers served by all Sprint PCS Affiliates. The agreements provide simplified and predictable long-term pricing for fees charged to the Sprint PCS Affiliates for inter-area service. In addition, the agreements settled all significant outstanding disputes with these affiliates.

One Sprint PCS Affiliate, which has not agreed to amend its existing agreement with us, has filed suit against us. This same affiliate and some other Sprint PCS Affiliates are disputing and refusing to pay amounts owed to Sprint. Reserves have been established that are expected to provide for the ultimate resolution of these disputes. Wireless may incur additional expenses to ensure that service is available to its subscribers in the areas served by the Sprint PCS Affiliates. If any of the Sprint PCS Affiliates cease operations, Wireless could incur roaming charges in areas where service was previously provided by the Sprint PCS Affiliates or may be required to cover costs associated with Federal Communications Commission (FCC) buildout and renewal requirements, as well as experience lower revenues.

Sprint is subject to exclusivity provisions and other restrictions under its arrangements with the Sprint PCS Affiliates. Once the proposed merger is completed, continued compliance with those restrictions may limit the ability to fully integrate the operations of Sprint and Nextel in areas managed by the Sprint PCS Affiliates, and Sprint or Sprint Nextel could incur significant costs to resolve issues related to the proposed merger under these arrangements. We are currently working with Sprint PCS Affiliates to modify our arrangements with them such that the proposed merger of Sprint and Nextel will be mutually beneficial.

Wireless also provides services to companies that resell wireless services to their subscribers on a retail basis under their own brand using the Sprint Nationwide PCS Network. These companies bear the costs of acquisition, billing and customer service. In June 2002, Virgin Mobile USA, LLC, a joint venture between Sprint and the Virgin Group, launched services targeting youth and pre-pay segments. Sprint also has a multi-year, exclusive wholesale agreement with Qwest Communications (Qwest) whereby Qwest wireless subscribers use Sprint's Nationwide PCS Network and have access to Sprint PCS Vision data services. Qwest began adding new subscribers under this agreement in the 2004 first quarter. In the 2004 second quarter, existing Qwest subscribers began transitioning to Sprint's Nationwide PCS Network and this transition is expected to be substantively complete by the 2005 first quarter.

The financial performance for Wireless for 2004, 2003 and 2002 is summarized as follows:

	2004	2003 (millions)	2002
Net operating revenues	\$ 14,647	\$ 12,690	\$ 12,074
Operating income ⁽¹⁾	\$ 1,552	\$ 634	\$ 527

⁽¹⁾ See Part II, Item 7 Segmental Results of Operations – Wireless for more information regarding financial performance.

Competition

The market for wireless services is highly competitive. Sprint's wireless operations compete against a number of carriers including four other national wireless companies: Cingular Wireless, Verizon Wireless, Nextel and T-Mobile. Each of the markets in which Wireless competes is served by other wireless service providers. A majority of the markets, including each of the top 50 metropolitan markets, have five or more service providers including Sprint. Competition may continue to increase to the extent that licenses are transferred from smaller, stand-alone operators to larger, more experienced and more financially stable wireless operators, or as new firms enter the market as additional radio spectrum is made available for commercial wireless services. Consolidation of the industry is ongoing and the recent combination of Cingular Wireless and AT&T Wireless Services has resulted in Cingular Wireless being the largest competitor.

Strategy

Wireless intends to increase capacity and enhance network coverage, and to increase market penetration by aggressively marketing competitively priced PCS products and services under the Sprint brand name, offering

enhanced voice and data services and seeking to provide a superior customer experience. It also expects to increase market penetration through its investment in Virgin Mobile USA, which targets the youth and pre-pay segments, and from its other wholesale offerings. The principal elements of Wireless' strategy for achieving these goals are:

- using state-of-the-art technology,
- leveraging the operating scale of Sprint's Nationwide PCS Network to achieve significant cost advantages in purchasing power, operations, and marketing,
- seeking to deliver superior service to its customers,
- growing its customer base using multiple distribution channels,
- delivering innovative products and services,
- continuing to increase capacity and enhance coverage, and
- offering Sprint's entire product portfolio.

Local

General

Local consists mainly of regulated incumbent local phone companies serving approximately 7.7 million access lines in 18 states. Local provides local voice and data services, including Digital Subscriber Line (DSL), for customers within its franchise territories, access by phone customers and other carriers to the local network, nationwide long distance services to residential customers located within its franchise territories, sales of telecommunications equipment, and other services within specified calling areas to residential and business customers. Local provides wireless and video services to customers in its franchise territories through agency relationships.

Local's financial performance for 2004, 2003 and 2002 is summarized as follows:

	2004	2003	2002
		(millions)	
Net operating revenues	\$6,021	\$6,130	\$6,244
Operating income ⁽¹⁾	\$1,766	\$1,862	\$1,815

(1) See Part II, Item 7 Segmental Results of Operations – Local for more information regarding financial performance.

Competition

Local's franchise territories are principally in suburban and rural markets. Competition in these markets is occurring more gradually than for the Regional Bell Operating Companies: Verizon, BellSouth, SBC Communications and Qwest (RBOCs). In urban areas there is substantial competition and there is increasing competition in less urban areas. Cable companies selling cable modems continue to provide competition for high-speed data services for residential customers and have begun providing voice telephone services to the home in some areas. In addition, e-mail and wireless service usage has eroded Local's access and long-distance revenues. Mergers or other combinations involving competitors may increase competition. Competition in these services is based on price and pricing plans, the types of services offered, customer service, and communications quality, reliability and availability.

Strategy

Local's strategy is focused on growing its share of communications spending within its franchised service areas through broad-based product and service differentiation. Local is bundling Sprint's entire portfolio of wireline and wireless services, providing video capability with Echostar Communications Corp., and expanding DSL coverage. In addition, Local plans to continue to enhance its customers' service experience with a single, clear invoice and integrated customer care for all bundled services.

Long distance

General

Long distance provides a broad suite of communications services targeted to domestic business and residential customers, multinational corporations and other communications companies. These services include domestic and international voice, data communications using various protocols such as IP and frame relay and managed network services. Sprint is one of the nation's largest providers of long-distance services, and operates all-digital long distance and tier one IP networks. Long distance is selling into the cable telephony market through arrangements with cable companies that resell Sprint long-distance service and/or use Sprint back office systems and network assets in support of their local telephone service provided over cable facilities.

In 2001, Sprint announced it would halt further deployment of Multipoint Multichannel Distribution Services (MMDS), which are now referred to as Broadband Radio Services (BRS), using current line of sight technology. Current video and high speed data customers continue to receive service. In the 2003 third quarter, Sprint's ongoing evaluation of its business use for the BRS spectrum resulted in a decision to end pursuit of a residential fixed wireless strategy and an impairment of spectrum carrying value. Sprint is now focusing its efforts on a broad range of alternative strategies. Sprint is continuing to invest in the spectrum, is monitoring technology and industry developments, and is involved in efforts to achieve favorable regulatory rulings with respect to this spectrum.

Sprint determined that business conditions and events occurring in the 2004 third quarter and impacting its Long distance operations constituted a "triggering event" requiring an evaluation of the recoverability of the Long distance long-lived assets pursuant to SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Sprint reevaluated its strategy and financial forecasts in the 2004 third quarter resulting in a \$3.52 billion pre-tax non-cash impairment charge of the Long distance long-lived assets. This charge reduced the net carrying value of Long distance property, plant and equipment by about 60%, to \$2.29 billion at September 30, 2004. For additional information see Note 7 of Notes to Consolidated Financial Statements.

In the 2003 second quarter, Sprint announced the wind-down of its Web Hosting business.

Long distance's financial performance for 2004, 2003 and 2002 is summarized as follows:

	2004	2003	2002
		(millions)	
Net operating revenues	\$ 7,327	\$ 8,005	\$8,956
Operating loss ⁽¹⁾	\$(3,589)	\$(1,442)	\$(207)

⁽¹⁾ See Part II, Item 7 Segmental Results of Operations – Long distance for more information regarding financial performance.

Competition

Long distance competes with AT&T, MCI, Level 3, the RBOCs, and cable operators and other telecommunications providers in all segments of the long distance communications market. Both AT&T, which has agreed to be acquired by SBC Communications, and MCI, which may be acquired by Verizon, continue to be the two largest competitors in the domestic long distance communications market. Some competitors are targeting the high-end data market and are offering deeply discounted rates in exchange for high-volume traffic as they attempt to fill their networks with traffic volume. The RBOCs have proven to be formidable long distance competitors. In addition, long distance services provided by wireless service providers and IP-based services are expected to continue to adversely affect Long distance. Competition in long distance is based on price and pricing plans, the types of services offered, customer service, and communications quality, reliability and availability. Sprint's ability to compete successfully will depend on its ability to anticipate and respond to various competitive factors affecting the industry, including new services that may be introduced, changes in consumer preferences, demographic trends, economic conditions, and pricing strategies. Many carriers are competing in the residential and small business markets by offering bundled packages of both local and long-distance services.

Strategy

In order to maintain market share in an increasingly competitive long distance communications environment, Long distance intends to leverage its principal strategic assets: its high-capacity national fiber-optic network, its tier one IP network, its base of business and residential customers, its established national brand, and offerings available from other Sprint operating entities. Long distance will focus on expanding its presence in the data communications markets and deploying network and systems infrastructure, including IP-driven telecommunications solutions, which provide reliability, cost effectiveness and technological improvements.

Legislative and Regulatory Developments

Telecommunications services are subject to regulation at the federal level by the FCC and at the state level by public utilities commissions. In general, incumbent local exchange carriers (ILECs) such as Sprint's local phone companies are subject to the most extensive regulation. Regulation not only covers rates and service terms, but also the terms on which ILECs provide connections and network elements to potential competitors known as competitive local exchange carriers (CLECs). Long distance providers are subject to less regulation, but still must comply with various statutory requirements and regulations. Commercial mobile radio service (CMRS) providers are not regulated from a retail pricing standpoint, but are subject to various licensing and technical requirements imposed by the FCC, including provisions related to the acquisition, assignment or transfer of radio licenses, and mandates, such as E-911 and wireless local number portability (WLNPN). CMRS providers are also subject to state regulation over terms and conditions of service.

Telecommunications have been and remain the subject of legislative initiatives at both the federal and state levels. The Telecommunications Act of 1996 (Telecom Act) was the first comprehensive update of the Communications Act of 1934. Among other things, the Telecom Act provided a framework for local competition, but required the passage of implementing rules by the FCC and the states. These rules have been the subject of numerous court appeals, as well as lobbying efforts before Congress. In virtually every session of Congress since the adoption of the Telecom Act, legislation has been proposed to amend it, and there is growing interest in the Congress in undertaking another update of the Communications Act of 1934. In addition, members of Congress use Congressional hearings and letters to emphasize points to regulators. Congressional participation in the development of regulatory policy and enforcement makes the regulatory process less predictable and potentially adverse to Sprint's interest. Various state legislatures also engage in regulatory policy matters.

Sprint – Wireline Operations

Competitive Local Service

The Telecom Act was designed to promote competition in all aspects of telecommunications. It eliminated legal and regulatory barriers to entry into local phone markets. It also required ILECs to allow local resale at wholesale rates, negotiate interconnection agreements, provide nondiscriminatory access to unbundled network elements and allow colocation of interconnection equipment by competitors. The rules implementing the Telecom Act remain subject to legal challenges. Moreover, many of the CLECs that invested money to participate in local competition have filed for bankruptcy. However, cable companies are increasingly competing for voice telephone customers. Thus, the nature of future local competition remains unclear.

Sprint is impacted by local competition rules from two perspectives: primarily, as an ILEC serving approximately 4% of the access lines in the United States and, secondarily, as a potential CLEC for the remainder of the country's access lines. Sprint is engaged as a CLEC providing local service to residential customers and small and medium business customers utilizing its own facilities, leased facilities and a platform of unbundled network elements (UNE-P) provided by the ILEC. The CLEC activities are not significant to Sprint's operations, and Sprint is no longer actively engaged in adding additional UNE-P residential customers to its current base.

In December 2004, the FCC adopted an order, which will be effective on March 11, 2005, revising rules on unbundled network elements in response to a March 2004 decision of the D.C. Circuit Court of Appeals vacating significant portions of the FCC's prior UNE rules. The order terminates the ILECs' obligation to offer UNE-P after a one-year transition period, during which there will be some increases in the rates ILECs are permitted to charge for UNE-P, and restricts, to some extent, the availability of high-capacity loop and transport UNEs. The RBOCs and an ILEC trade association have challenged this order as not fully complying with the March 2004 court decision. The FCC order will require Long distance to discontinue its use of UNE-P unless the RBOCs agree to allow continued use of UNE-P at negotiated, commercially viable prices. Local will benefit from the UNE-P ruling, although its competitors have not made extensive use of UNE-P. The new restrictions on the availability of high-capacity loop and transport facilities as UNEs will not have a material effect either on the competition faced by Local or on Long distance's current competitive local offerings to medium and large business customers.

Separately, the FCC is considering whether it should establish performance measures for ILEC provision of unbundled network elements and special access services, the appropriate regulatory requirements for ILEC provision of domestic broadband telecommunications, and whether to revise the methodology the states must use to establish prices for unbundled network elements.

Universal Service Requirements and Access Reform

The FCC continues to address issues related to universal service and access reform. In 2000, the FCC adopted an access reform plan that substantially reduced switched access charges paid by long distance carriers to the large ILECs and created a new universal service fund that offsets a portion of this reduction in access charges. In connection with its advocacy of this plan, Sprint committed that it would flow through the reductions in switched access costs over the five-year life of the plan to both business and residential customers. Sprint also committed to certain other pricing actions, including eliminating charges to residential and single-line business customers which had been used to pass through certain access costs that were eliminated by this plan, and maintaining, for the duration of the plan, at least one pricing option that does not include a minimum usage charge. The FCC order adopting this access reform plan requires Sprint to adhere to these commitments.

The FCC and many states have established "universal service" programs to ensure affordable, quality local telecommunications services for all U.S. residents. Local currently receives approximately \$200 million annually in support funds. In addition, Wireless is receiving support funds as a competitive "eligible telecommunications carrier" in selected states at a current rate of approximately \$30 million annually. The FCC is considering changes in its distribution of universal service support that could adversely affect Wireless' eligibility to receive such support or reduce the amount of support it receives. Sprint's contributions to fund the federal universal service programs are based on a percentage of interstate and international end-user revenues from telecommunications services. These contributions are generally recovered from customers through surcharges. The FCC is considering whether to replace this revenue-based assessment in whole or in part with an assessment based on telephone numbers or connections to the public network. The Intercarrier Compensation Forum (ICF) Plan, discussed below, proposes federal universal service assessments based on both numbers and connections. Such changes would increase the contributions from Local and Wireless, while decreasing the contributions from Long distance.

In 2001, the FCC launched a proceeding to determine whether access charges, as well as reciprocal compensation for local interconnected calls, should be replaced either by a "bill-and-keep" system under which intercarrier compensation would be eliminated and all carriers would recover their costs solely from end-user customers or by a unified intercarrier compensation system in which the same rates would apply to all forms of intercarrier compensation, i.e., access and reciprocal compensation. This proceeding remains pending with the FCC, and it is difficult to predict the changes that might result or their timing and impact. In October 2004, a group of eight companies including Sprint, AT&T, MCI and SBC, known as the ICF, filed a detailed proposal for reform of intercarrier compensation calling for phased reductions in intercarrier compensation charges to a low, uniform level, except in certain rural areas over three years. Further the ICF Plan called for a transition to a zero rate, again, except in rural areas, by mid-2011. Under the ICF Plan, ILECs, including Local, would have an opportunity to make up for the reduced intercarrier compensation revenues through a combination of increases in end user charges and additional federal universal service funds. In February 2005, the FCC issued a notice seeking public comment on the ICF Plan and other reform proposals submitted by other industry groups.

In January 2005, the FCC initiated a rulemaking proceeding on whether and how it should revise its regulation of rates for special access services provided by incumbent local carriers to long distance and other carriers, typically to connect large business customers to long distance carriers networks. In addition to seeking comment on permanent changes in regulation of special access rates, the FCC also asked whether interim charges should be put in place in conjunction with a scheduled mid-2005 revision of access tariffs. This proceeding could affect the amount Local charges for special access and the amount Long distance and Wireless pay for the special access services they use.

Voice over Internet Protocol

With the growing use of Voice over Internet Protocol (VoIP), the FCC is considering the regulatory status of various forms of VoIP. The outcome of these proceedings will determine whether and how retail VoIP offerings should be regulated, as well as whether VoIP providers should pay access charges and should contribute to the federal universal service fund. In February 2004, the FCC issued an order finding that one form of VoIP, involving a specific form of computer-to-computer services for which no charge is assessed, is an unregulated "information service," rather than a telecommunications service, and preempting any attempts by state regulatory authorities to regulate this service. In April 2004, the FCC ruled that long distance offerings in which calls begin and end on the ordinary public switched telephone network, but are transmitted in part through the use of IP, are "telecommunications services," thereby rendering the services subject to all the regulatory obligations of ordinary long-distance services, including payment of access charges and contributions to universal service funds. In November 2004, the FCC preempted states from exercising entry and related economic regulation of certain other forms of VoIP that originate through the use of broadband connections and specialized customer premises equipment. This ruling, which has been appealed in the courts, did not address other issues regarding VoIP, such

as whether these forms of VoIP are "information services" or "telecommunications services," or what regulatory obligations, such as intercarrier compensation and universal service contributions, should apply to the providers of these services. These issues remain pending in a rulemaking proceeding the FCC initiated in March 2004.

The applicability of the Communications Assistance for Law Enforcement Act (CALEA) to VoIP service and other IP-based services is the subject of another rulemaking proceeding initiated in August 2004. CALEA was enacted in 1994 to preserve electronic surveillance capabilities authorized by federal and state law in light of emerging technologies that might be more difficult for law enforcement officials to monitor. Application of CALEA to VoIP and other IP-based services could result in additional costs.

Reallocation of BRS Spectrum

The FCC has issued orders requiring relocation of licensed BRS operations from the 2150–2162 MHz band to the 2496–2502 MHz and 2618–2642 MHz as part of its efforts to clear spectrum throughout the 2.1 GHz band for Advanced Wireless Services. The orders provide that incumbents such as Sprint will be reimbursed for their relocation costs, and the FCC will establish a mechanism for that process in a future proceeding.

BRS and Educational Broadband Service (EBS) Bandplan and Service Rule Overhaul

The FCC has adopted an order that significantly reconfigures the BRS and EBS channelization scheme and revises the corresponding service rules. Sprint holds BRS licenses and leases EBS spectrum. The changes adopted by the FCC are designed to promote flexible use of the spectrum. The FCC is currently developing further revisions to the service rules that affect various operational and administrative aspects of the BRS and EBS services.

BRS License Conditions

The FCC auctioned certain BRS licenses in 1996 for a term of ten years. The licenses may be renewed by the FCC for additional ten year terms. The FCC rules required all licensees of this auctioned BRS spectrum to meet certain buildout requirements in order to retain their licenses. Prior to August 16, 2003, Sprint filed certifications for 62 of its 93 basic trading areas (BTAs) indicating that it has met the buildout requirements then in effect. However, it has not yet received confirmation from the FCC that the requirement has been met in any BTA. Sprint, other BRS licensees and the BRS trade association have asked the FCC to delay the buildout deadline and to amend its rules regarding the buildout obligations along with other rule changes affecting BRS service. The FCC is currently developing these rules, but has yet to act upon Sprint's, and other licensees', pending construction certifications. Under the now-defunct rules, failure to comply with FCC requirements in a given market could have resulted in the loss of the license for that part of the service area in which the buildout requirements are not met. Because the FCC is still developing new BRS buildout requirements, it is unclear how such failures will be addressed going forward.

Sprint – Wireless Operations

The FCC sets rules, regulations and policies to, among other things:

- grant licenses for PCS frequencies and license renewals,
- rule on assignments and transfers of control of PCS licenses,
- govern the interconnection of PCS networks with other wireless and wireline carriers,
- establish access and universal service funding provisions,
- impose fines and forfeitures for violations of any of the FCC's rules,
- regulate the technical standards governing wireless services, and
- impose other obligations that it determines to be in the public interest.

In 2004 new FCC rules that allow CMRS licensees to lease spectrum to other parties went into effect. Licensees now have more flexibility to use spectrum assets. Wireless has entered into spectrum leases that allow utilization of its spectrum holdings for a variety of strategic purposes. Wireless plans to utilize spectrum leasing as a means of obtaining access to additional spectrum in certain markets. On February 15, 2005, the FCC concluded an auction of 242 personal communications services licenses. Wirefree Partners III, LLC (Wirefree) won licenses in 16 markets, subject to FCC approval. Sprint has agreements with Wirefree to lease certain spectrum in those 16 markets.

Since 2003, the FCC has been reallocating additional spectrum for 3G purposes. The FCC identified which spectrum bands should be used for Advanced Wireless Services and is considering the technical parameters and service rules to govern operation in these frequencies. After this process is complete, the FCC will auction this spectrum. The FCC announced at the end of 2004 its plan to auction 90 MHz of Advanced Wireless Services spectrum in June 2006. In addition, the FCC plans to auction additional spectrum in the 700 MHz band which is currently used for analog broadcasting. With the exception of a few licenses that went unsold in prior 700 MHz auctions, the FCC has not yet scheduled dates to auction the remaining 700 MHz spectrum. It is not clear if the allocation of additional spectrum for 3G purposes and the auction of 700 MHz spectrum for mobile services will impact the value of Sprint's current spectrum licenses.

The FCC has initiated a number of proceedings to evaluate its rules and policies regarding spectrum licensing and usage. For example, it is considering new "harmful interference" concepts that might permit unlicensed users to "share" licensed spectrum. These new uses could impact Sprint's utilization of its licensed spectrum.

PCS License Conditions

All PCS licenses are granted for ten-year terms. The FCC utilizes major trading areas (MTA) and BTAs for the purpose of issuing licenses for PCS. Several BTAs make up each MTA. Licenses may be revoked if the FCC's construction requirements are not met.

All 30 MHz MTA licensees must build PCS networks offering coverage to 1/3 of the population within five years and 2/3 of the population within 10 years. In 2000, Sprint met the five-year buildout requirement in all of its MTA markets. Sprint has already met the ten-year buildout requirement in the majority of its MTA markets and expects to meet the ten-year buildout requirement in all of its MTA markets before the June 2005 deadline. All 10 MHz and 15 MHz broadband PCS licensees must construct networks offering coverage to at least 1/4 of the population or make a showing of "substantial service" within five years of license grant. In 2002, Sprint met the 10/15 MHz five-year buildout requirement in all of its BTA markets.

If applicable buildout conditions are met, PCS licenses may be renewed for additional ten-year terms. Renewal applications are not subject to auctions. If a renewal application is challenged, the FCC grants a preference commonly referred to as a license renewal expectancy to the applicant if it can demonstrate it has provided "substantial service" during the past license term and has substantially complied with applicable FCC rules and policies and the Communications Act of 1934. The FCC defines "substantial" service as service which is "sound, favorable and substantially above a level of mediocre service that might only minimally warrant renewal."

Other FCC Requirements

Sprint's wireless operations began providing WLNP in the 100 largest metropolitan statistical areas (MSAs) in compliance with the FCC-mandated November 24, 2003 deadline. WLNP allows customers to retain existing telephone numbers when switching from one telecommunications carrier to another, subject to certain limitations. We implemented WLNP beyond the largest 100 MSAs in 2004. The WLNP requirements impose increased operating costs on all CMRS carriers and make it easier for subscribers to change providers.

Broadband PCS and other CMRS providers must implement enhanced emergency 911 capabilities in a two-tiered manner. In the first phase, wireless carriers must identify the base station from which a call originated. In the second phase, wireless carriers must provide location within a radius as small as fifty meters. Implementation of the second phase location requirements must generally begin within six months of a valid request by a public safety organization. Sprint has deployed system elements necessary to support Phase one and Phase two enhanced emergency 911 throughout its entire network. Actual availability of Phase one or Phase two enhanced emergency 911 services in any particular market is dependent upon receipt of a request for service and completion of necessary upgrades by local governments, and is not within Sprint's control. We file regular reports with the FCC outlining our compliance with these obligations. Failure to comply with the FCC's rules in this area may result in significant monetary penalties.

CALEA Requirements

CALEA requires telecommunications carriers, including Sprint, to modify their equipment, facilities and services to allow for authorized electronic surveillance based on either industry or FCC standards. In December 2004, Sprint deployed packet-mode CALEA electronic capabilities in its wireless IP network compliant with industry standards. The FCC has issued a notice of proposed rulemaking to address CALEA packet-mode data requirements which

could require Sprint to implement additional CALEA capabilities. Like other CMRS carriers, Wireless has sought an extension of CALEA deadlines for packet-mode data services and this request remains pending given the FCC proceeding. Law enforcement agencies, led by the Department of Justice (DOJ), Federal Bureau of Investigation (FBI), and Drug Enforcement Administration (DEA) are actively participating in a number of FCC proceedings relating to packet-mode data services. DOJ, FBI, and DEA are seeking determinations from the FCC that providers of packet-mode services -- particularly Voice-Over-Packet communications -- must provide electronic interception capabilities. Determinations in these FCC proceedings could affect disposition of Sprint's CALEA extension requests for its wireless operations.

If the extension requests are not granted, Sprint could be subject to fines if it is unable to comply with a surveillance request from a law enforcement agency. Sprint has also sought clarification from the FCC on the scope of telecommunications carriers' obligation to intercept packet-mode data services.

Other Federal Regulations

Wireless systems must comply with certain FCC and Federal Aviation Administration (FAA) regulations about the siting, lighting and construction of transmitter towers and antennas. In addition, FCC rules subject certain cell site locations to National Environmental Policy Act (NEPA) and National Historic Preservation Act (NHPA) regulation. Late in 2004, the FCC adopted significant modifications to its NHPA rules that will result in additional historic preservation review requirements and might impact antenna siting efforts in certain areas with historic properties. The FCC is currently evaluating changes to its NEPA rules that could also impact antenna siting efforts in certain areas.

Universal Service Requirements and Access Charges

The FCC and many states have established universal service programs to ensure affordable telecommunications services for all U.S. residents. In 2001, the FCC increased the "safe harbor" estimate of the amount of wireless revenues that can be attributed to interstate and international services. Although wireless carriers may still rely on their actual interstate traffic levels to determine universal service fund (USF) contributions, the FCC's modification of the "safe harbor" increased the overall share of federal universal service funding borne by wireless carriers, including Sprint's wireless operations.

Telecommunications providers, including wireless carriers that meet certain requirements, may be designated as Eligible Telecommunications Carriers (ETCs). Wireless ETCs may receive universal service support for providing service to consumers that use wireless services in high cost areas, typically in more rural parts of the U.S. Wireless has obtained ETC status in 18 jurisdictions, thereby making Wireless eligible for universal service support payments. Although Sprint is still a net payor into the USF, these subsidy payments to Wireless are an additional source of revenue that reduces Sprint's overall USF obligation. The FCC is currently considering a number of measures that could restrict the ability of wireless providers to serve as ETCs. If the FCC adopts rules that limit the ability of wireless providers to serve as ETCs, Wireless may seek to rescind its ETC status in certain jurisdictions, resulting in an increase in its net payment into USF.

State and Local Regulation

The Telecom Act generally preempts state and local regulation of market entry or the rates charged by a CMRS provider. States may, however, regulate "other terms and conditions" of mobile service, such as billing practices and other consumer-related issues. Several states have commenced proceedings to implement consumer protection and service quality regulations that would impose substantial incremental costs across the industry.

The location and construction of radio towers and antennas are also subject to a variety of state and local zoning, land use and regulatory requirements. Therefore, the time needed to obtain zoning approvals for the construction of additional wireless facilities varies from market to market and state to state. The cost of constructing wireless antenna facilities also varies by market and state.

The potential impact on Sprint and its operations of material regulatory developments is discussed under "Risk Factors Relating to Sprint."

Environmental Compliance

Sprint has identified seven former manufactured gas plants where it may have some obligation to contribute to cleanup costs. Sprint continues to evaluate whether and to what extent it has liability with respect to each site and

has reserved for cleanup costs. The manufactured gas plants are not currently owned or operated by Sprint, but may have been owned or operated by entities acquired by Sprint's subsidiary, Centel Corporation, before Sprint acquired Centel. Centel and the current land owner of the site in Columbus, Nebraska are working with the Environmental Protection Agency pursuant to an administrative consent order. Amounts expended pursuant to the order are not expected to be material. Other environmental compliance and remediation expenditures mainly result from the operation of standby power generators for its telecommunications equipment. The expenditures arise in connection with standards compliance, permits or occasional remediation, which are usually related to generators, batteries or fuel storage. Sprint's environmental compliance and remediation expenditures have not been material to its financial statements or to its operations and are not expected to have any future material adverse effects on its financial statements or its operations.

Patents, Trademarks and Licenses

Sprint owns numerous patents, patent applications, service marks and trademarks in the United States and other countries. Sprint has a program to file applications for trademarks, service marks and patents where Sprint believes this protection is appropriate. "Sprint" and "Sprint PCS" are registered trademarks of a wholly-owned subsidiary of Sprint. Sprint services often use the intellectual property of others such as using licensed software. Sprint also licenses copyrights, patents and trademarks of others. In total, these licenses and Sprint's copyrights, patents, trademarks and service marks are of material importance to the business. Generally, Sprint's trademarks, trademark licenses and service marks have no limitation on duration. Sprint's patents and licensed patents have remaining terms generally ranging from one to 19 years.

Sprint occasionally licenses its intellectual property to others. Sprint has granted licenses to others to use its registered trademark "Sprint" in certain situations, including to R.H. Donnelley in connection with the provision of telephone directories in Local's franchise territories and to the Sprint PCS Affiliates.

Sprint has received claims in the past, and may in the future receive claims, that Sprint infringes on the intellectual property of others. These claims can be time-consuming and costly to defend and divert management resources. If these claims are successful, Sprint could be forced to pay significant damages or stop selling certain products or services. Sprint also could enter into licenses with unfavorable terms, including royalty payments, which could adversely affect Sprint's business.

Employee Relations

At year-end 2004, Sprint had approximately 59,900 active employees. Approximately 7,300 employees were represented by unions.

In the 2003 fourth quarter and throughout 2004, Sprint recognized charges from its Organizational Realignment initiatives. The restructuring was a company-wide effort to create a more customer-focused organization. These decisions included work force reductions in each segment and corporate functions in both 2004 and 2003.

In the 2003 second quarter, Sprint announced the wind-down of its Web Hosting business. Restructurings of other Long distance operations also occurred in the continuing effort to create a more efficient cost structure. These decisions included work force reductions.

In the 2002 fourth quarter, Sprint announced plans to consolidate its Network, Information Technology, and Billing and Accounts Receivable organizations, as well as steps to reduce operating costs. These decisions included work force reductions in each segment and corporate function. Additionally, in a separate action, Wireless announced it would reduce operating expenses through a further work force reduction.

In the 2002 third quarter, Sprint announced a restructuring integrating its E[Solutions] web hosting sales, mobile computing consulting, marketing, and product sales support capabilities into Sprint Business while integrating its customer service operations into Network Services. Additionally, Sprint announced that Long distance would discontinue offering and supporting facilities-based DSL services to customers. These decisions included work force reductions.

In the 2002 first quarter, Wireless announced plans to close five customer solution centers, as well as additional steps to reduce operating costs in its network, sales and distribution, and customer service business units. These decisions included work force reductions.

See Note 7 of Notes to Consolidated Financial Statements for more information on the impacts of these decisions.

Management

For information concerning the executive officers of Sprint, see "Executive Officers of the Registrant" in this document.

Information as to Business Segments

For information required by this section, refer to Sprint's "Management's Discussion and Analysis of Financial Condition and Results of Operations" and also refer to Note 18 of the Notes to Consolidated Financial Statements section of the Financial Statements filed as part of this document.

Risk Factors Relating to Sprint

The businesses of Sprint and Sprint Nextel could be adversely impacted by uncertainty related to the proposed merger.

Uncertainty about whether and when the proposed merger with Nextel will be completed and how the business of Sprint Nextel will be operated after the proposed merger could adversely affect the businesses of Sprint or Sprint Nextel, including increased attempts by other communication providers to persuade Sprint subscribers to change service providers. This could increase the rate of subscriber churn for Sprint and have a negative impact on subscriber growth, revenue and the results of operations of Sprint, as well as Sprint Nextel.

Failure to complete the merger could negatively impact the stock price and the future business and financial results of Sprint.

Completion of the proposed merger is subject to the satisfaction or waiver of various conditions, including the receipt of approvals from the Sprint and Nextel stockholders, receipt of various regulatory approvals and authorizations, and the absence of any order, injunction or decree preventing the completion of the proposed merger. There is no assurance that all of the various conditions will be satisfied or waived. If the proposed merger is not completed for any reason, Sprint will be subject to several risks, including the following:

- being required, under certain circumstances involving a competing takeover proposal, to pay Nextel a termination fee of \$1 billion;
- having incurred certain costs relating to the proposed merger that are payable whether or not the merger is completed, including legal, accounting, financial advisor and printing fees; and
- having had the focus of management directed toward the proposed merger and integration planning instead of on Sprint's core business and other opportunities that could have been beneficial to Sprint.

In addition, Sprint would not realize any of the expected benefits of having completed the proposed merger. If the proposed merger is not completed, Sprint cannot assure its stockholders that these risks will not materialize or materially adversely affect its business, financial results, financial condition and stock price.

The completion of the contemplated spin-off of the Local operations after the proposed merger cannot be assured.

Sprint and Nextel intend to spin off Sprint's local telecommunications business as a separate entity to Sprint Nextel's stockholders after the proposed merger, but the spin-off is not a condition to the completion of the proposed merger. There are significant operational and technical challenges to be addressed in order to successfully separate the assets and operations of the local telecommunications business from the rest of the resulting company.

The spin-off will also require the creation of a new publicly traded company with a capital structure appropriate for that company, the creation and staffing of operational and corporate functional groups and the creation of transition services arrangements between the new company and Sprint Nextel. The spin-off may result in additional and unforeseen expenses, and completion of the spin-off cannot be assured.

Completion of the spin-off will be conditioned, among other things, upon receipt of required consents and approvals from various federal and state regulatory agencies, including state public utility or service commissions. These consents and approvals, if received, may impose conditions and limitations on the business and operations of the company resulting from the spin-off. These conditions and limitations could jeopardize or delay completion of the spin-off and could reduce the anticipated benefits of the proposed merger and the spin-off.

Failure to satisfy our capital requirements could cause us to delay or abandon our expansion plans. If we incur significant additional indebtedness, it could cause a decline in our credit rating and could limit our ability to raise additional capital.

We continue to have substantial indebtedness and we will continue to require additional capital to expand our businesses. We intend to fund these capital requirements with cash flow generated from operations. If we do not generate sufficient cash flow from operations, we may need to rely on additional financing to expand our businesses. In connection with the execution of our business strategies, we are continually evaluating acquisition opportunities, and we may elect to finance acquisitions by incurring additional indebtedness. We may not be able to arrange additional financing to fund our requirements on terms acceptable to us. Our ability to arrange additional financing will depend on, among other factors, our financial performance, general economic conditions and prevailing market conditions. Many of these factors are beyond our control. Failure to obtain suitable financing could, among other things, result in the inability to continue to expand our businesses and meet competitive challenges. If we incur significant additional indebtedness, our credit rating could be adversely affected. As a result, our future borrowing costs would likely increase and our access to capital could be adversely affected.

If Wireless does not continue to grow and improve profitability or if Long distance and Local do not achieve expected revenues, our ability to compete effectively and our credit rating will likely be adversely affected.

If Wireless does not continue to grow and improve profitability, we may be unable to make the capital expenditures necessary to implement our business plan, meet our debt service requirements, or otherwise conduct our business in an effective and competitive manner. This would require us to divert cash from other uses, which may not be possible or may detract from operations in our other businesses. These events could limit our ability to increase revenues and net income or cause these amounts to decline.

Long distance and Local have experienced declining operating revenues. If Long distance and Local cannot achieve expected revenues, they may be unable to make the capital expenditures necessary to implement their business plans or otherwise conduct their businesses in an effective and competitive manner. This could further damage our ability to maintain or increase our revenues as a whole.

If Wireless does not continue to grow and improve profitability, or if Long distance and Local cannot achieve expected revenues, our credit rating will likely be adversely affected. If our credit rating is adversely affected, our future borrowing costs would likely increase and our access to capital could be adversely affected.

We face intense competition that may reduce our market share and harm our financial performance.

There is intense competition in the telecommunications industry. The traditional dividing lines between long distance, local, wireless, cable and internet services are increasingly becoming blurred. Through mergers, joint ventures and various service bundling strategies, major providers, including Sprint, are striving to provide integrated solutions both within and across all geographical markets.

We expect competition to intensify as a result of the entrance of new competitors and the rapid development of new technologies, products, and services. We cannot predict which of many possible future technologies, products, or services will be important to maintain our competitive position or what expenditures will be required to develop and provide these technologies, products or services. Our ability to compete successfully will depend on marketing and sales and service delivery, and on our ability to anticipate and respond to various competitive factors affecting the industry, including new services that may be introduced, changes in consumer preferences, demographic trends, economic conditions, and discount pricing and other strategies by competitors. To the extent we do not keep pace with technological advances or fail to timely respond to changes in competitive factors in our industry, we could lose market share or experience a decline in revenue and net income.

Wireless Operations. Wireless competes in markets served by other wireless service providers. A majority of the markets, including each of the top 50 metropolitan markets, have five or more wireless service providers, including

Sprint. Competition may continue to increase to the extent that there are mergers or other combinations involving our competitors or licenses are transferred from smaller stand-alone operators to larger, more experienced and more financially stable wireless operators. These wireless operators may be able to offer subscribers network features or products not offered by us. The actions of these wireless operators could negatively affect our subscriber churn, ability to attract new subscribers, average revenue per user and operating costs.

We rely on agreements with competitors to provide automatic roaming capability to wireless subscribers in many of the areas of the United States not covered by our wireless network, which primarily serves metropolitan areas. Certain competitors may be able to offer coverage in areas not served by our wireless network or may be able to offer roaming rates that are lower than those offered by us.

Beginning in November 2003, all wireless service providers were required to offer a database solution for WLNP in the 100 largest metropolitan statistical areas. WLNP allows subscribers to retain, subject to certain geographical limitations, their existing telephone numbers when switching from one carrier to another. In addition to imposing increased costs on our wireless PCS operations, this enables our subscribers to move to other carriers without losing established telephone numbers.

Many wireless providers have been upgrading their systems and provide advanced and digital services which compete with our wireless services. Many of these wireless providers require their subscribers to enter into long term contracts, which may make it more difficult for us to attract subscribers away from these wireless providers.

We anticipate that market prices for wireless voice services and products generally will continue to decrease in the future as a result of continued competition. All of these developments may lead to greater choices for subscribers, possible consumer confusion, and increased industry churn.

Wireline Operations. Long distance competes with AT&T, MCI, Level 3, the RBOCs and cable operators, as well as a host of smaller competitors in the provision of long distance and local services. Some of these companies have built high-capacity, IP-based fiber-optic networks capable of supporting large amounts of bandwidth. These companies claim certain cost structure advantages which, among other factors, may position them well for the future. Increased competition and the significant increase in capacity resulting from new networks may drive already low prices down further. Both AT&T, which has agreed to be acquired by SBC Communications, and MCI, which may be acquired by Verizon, continue to be the two largest competitors in the domestic long-distance communications market. Sprint and other long distance carriers depend heavily on local access facilities obtained from RBOCs to serve their long distance customers. The proposed acquisitions of AT&T and MCI by two RBOCs, if approved, could give those carriers' long distance operations cost and operational advantages with respect to these access facilities. Further, these acquisitions, if approved, could result in the loss of revenues currently received from these RBOCs and related controlled entities for Sprint long distance services. Such revenues represent about 1% of Sprint's annual revenues.

The Telecom Act allowed the RBOCs to provide long distance services in their respective regions after they met certain conditions. The RBOCs have proven to be formidable long distance competitors. In addition, long distance services provided by wireless and IP-based operators are expected to continue to adversely affect sales of Long distance. Inter-exchange and other carriers are allowed to compete for local services by resale, by using unbundled network elements, or through their own facilities.

Local operates principally in suburban and rural markets. As a result, competition in Local markets is occurring more gradually than for the RBOCs. In urban areas where Local operates there is substantial competition by CLECs and there is increasing competition in less urban areas. Cable companies selling cable modems continue to provide competition for high-speed data services for residential customers and are beginning to offer voice telephone service using their cable facilities. E-mail and wireless services will continue to grow as an alternative to wireline services.

A high rate of subscriber churn would likely impair our financial performance.

A key element in the economic success of telecommunications carriers is the rate of subscriber churn. Current strategies to reduce subscriber churn may not be successful. A high rate of subscriber churn would impair our ability to increase the revenues of, or cause a deterioration in the operating margin of, our operating units or Sprint as a whole.

Any failure by Wireless to improve subscriber service and continue to enhance the quality of our network and meet capacity requirements of our subscriber growth will likely impair our financial performance and adversely affect our results of operations.

Wireless is working to improve subscriber service. Although improving subscriber service may increase the cost of supporting our subscribers, if we are unable to improve subscriber service, our subscribers may switch to other wireless providers.

Wireless must continue to enhance the quality of the wireless network. As we continue this enhancement, we must:

- obtain rights to a large number of cell sites,
- obtain zoning variances or other approvals or permits for network construction and expansion, and
- build and maintain additional network capacity to satisfy subscriber growth.

Network enhancements may not occur as scheduled or at the cost that we have estimated. Delays or failure to add network capacity, or increased costs of adding capacity, could limit our ability to satisfy our subscribers and retain or increase the revenues and operating margin of Wireless or Sprint as a whole.

If some of our Sprint PCS Affiliates experience financial difficulties we could be forced to incur additional expenses which could adversely affect our financial performance.

We supplement our wireless network buildout through commercial affiliation arrangements with other companies that use CDMA. Under these arrangements, these companies offer wireless services under Sprint's brand on CDMA networks built and operated at their own expense. We call these companies Sprint PCS Affiliates. Generally, the Sprint PCS Affiliates use spectrum owned and controlled by Sprint. We pay these companies a fee based on billed or collected revenues for operating the network on our behalf. Sprint has amended its existing agreements with a majority of the Sprint PCS Affiliates to provide for a simplified pricing mechanism, as well as refining and changing various business processes. The amended agreements cover nearly 80% of the subscribers served by all Sprint PCS Affiliates. If any of the Sprint PCS Affiliates cease operations in all or part of their service area, we may incur roaming charges in areas where service was previously provided by the Sprint PCS Affiliates. We may also incur costs to meet FCC buildout and renewal requirements, as well as experience lower revenues. Failure to meet FCC buildout and renewal requirements could result in the loss of a PCS license or licenses depending on the service area.

Significant changes in the industry could cause a decline in demand for our services.

The wireless telecommunications industry is experiencing significant technological change, including improvements in the capacity and quality of digital technology such as the move to 3G wireless technology. This causes uncertainty about future subscriber demand for our wireless services and the prices that we will be able to charge for these services. The rapid change in technology may lead to the development of wireless telecommunications services or alternative services that consumers prefer over our services. For example, the demands for our wireless data services may be affected by the proliferation of wireless local area networks using new technologies, mesh networks using unlicensed spectrum or the enactment of new laws or regulations restricting use of wireless handsets. There is also uncertainty as to the extent to which airtime charges and monthly recurring charges may continue to decline.

The wireline industry is also experiencing significant technological change. Cable companies are providing telecommunications services to the home. Some carriers are providing local and long distance voice services over Internet Protocol (VoIP), in the process avoiding access charges on long distance calls.

As a result of these changes, the future prospects of the wireless and wireline industry and the success of our services remain uncertain.

Government regulation could adversely affect our prospects and results of operations.

Wireless Operations. The licensing, construction, operation, sale, and interconnection arrangements of wireless telecommunications systems are regulated by the FCC and, depending on the jurisdiction, state and local regulatory agencies. The Communications Act of 1934 preempts state and local regulation of market entry by, and

the rates charged by, CMRS providers, except in limited circumstances. States may regulate such things as billing practices and consumer-related issues. California imposed, then suspended, rules designed to impose consumer protections. Several other states are considering similar initiatives. If imposed, these regulations could increase the costs of our wireless operations. The Federal Trade Commission also regulates how wireless services are marketed.

The FCC, together with the FAA, also regulates tower marking and lighting. In addition, tower construction is affected by federal, state and local statutes addressing zoning, environmental protection and historic preservation. The FCC recently adopted significant changes to its rules governing historic preservation review of projects which could make it more difficult to deploy antenna facilities. The FCC is also considering changes to its rules regarding environmental protection as related to tower construction, which, if adopted, could make it more difficult to deploy facilities. The FCC, the FAA, or other governmental authorities having jurisdiction over our business could adopt regulations or take other actions that would adversely affect our business prospects or results of operations.

The FCC grants PCS licenses for terms of 10 years that are subject to renewal and revocation. Our MTA licenses expire in 2004 and 2005, and our BTA licenses expire in 2007. We successfully renewed the two MTA licenses that expired at the end of 2004 for an additional ten year term. The remaining MTA licenses expire in June 2005. FCC rules require all PCS licensees to meet certain buildout requirements and substantially comply with applicable FCC rules and policies and the Communications Act of 1934 in order to retain their licenses. Failure to comply with FCC requirements in a given license area could result in revocation of the PCS license for that license area. Although we believe we will meet the FCC's buildout requirements in a timely fashion, there is no guarantee that our licenses will be renewed.

We have agreements with Wirefree to lease certain spectrum it won in Auction 58, subject to FCC approval. If the FCC fails to grant approval, our operations in areas covered by the potential leased spectrum could be adversely impacted due to spectrum constraints.

The FCC has initiated a number of proceedings to evaluate its rules and policies regarding spectrum licensing and usage. It is considering new "harmful interference" concepts that might permit unlicensed users to "share" licensed spectrum. These new uses could impact Sprint's utilization of its licensed spectrum.

CMRS providers must implement enhanced 911 capabilities in accordance with FCC rules. Failure to deploy 911 service consistent with FCC requirements could subject us to significant fines.

Failure by various regulatory bodies to make telephone numbers available in a timely fashion could result in our wireless operations not having enough local numbers to assign to new subscribers in certain markets. The FCC has adopted rules to promote the efficient use of numbering resources, including restrictions on the assignment of telephone numbers to carriers, including wireless carriers. The FCC has delegated to states the authority to assign, administer, and conserve telephone numbers. The FCC lifted its prohibition on area codes designated only for customers using a specific technology, such as an area code for only those using wireless technology, and now considers proposals submitted by state commissions seeking to implement this change on a case-by-case basis. Depending on the rules adopted by the states, the supply of available numbers could be adversely restricted. As a result, we:

- may be required to assign subscribers non-local telephone numbers, which may be a disincentive for potential subscribers to use our wireless service,
- may incur significant costs to either acquire new numbers or reassign subscribers to new numbers, and
- may be unable to enroll new subscribers at projected rates.

Wireline Operations. The FCC and state regulatory commissions may adopt new regulations or take other actions that could adversely affect our business prospects or results of operations.

FCC licenses associated with BRS spectrum are subject to renewal and revocation. In 1996, the FCC auctioned certain licenses – those licensed on a BTA geographic basis – for terms of ten years. Those licenses expire in 2006. The licenses may be renewed by the FCC for additional ten-year terms. The FCC rules require all licensees of auctioned BRS spectrum to meet certain buildout requirements in order to retain their licenses for this spectrum. Although we have met these requirements in a number of our markets, there is no guarantee that our licenses will be renewed. Failure to comply with FCC requirements in a given market could result in the loss of the BRS license for that part of the service area in which the buildout requirements are not met.

The FCC order adopted in December 2004 on unbundled network elements will eliminate the ability of our wireline operations to use the unbundled element platform to offer competing local services to small business and residential customers in areas outside the local division's franchise territories, and the FCC's pending reexamination of pricing guidelines for unbundled network elements could limit our future ability to use high-capacity loop and transport UNEs to offer competing local services to medium and large business customers.

The regulatory uncertainty surrounding VoIP and the apparent use of VoIP by some long distance carriers as a strategy to minimize access charges may adversely affect both Local's access revenues and the competitive position of Long distance to the extent it makes less use of VoIP than competitors. Adoption by the FCC of intercarrier compensation reform could reduce or eliminate other opportunities for access charge arbitrage, but could also reduce Local's revenues unless the plan provides a mechanism to replace those revenues with revenues from other sources.

Depending upon its outcome, the FCC's recently instituted proceeding regarding regulation of special access rates could affect Local's charges for that service in the future.

Failure to complete development, testing and rollout of new technology could affect our ability to compete in the industry and the technology we use could place us at a competitive disadvantage.

On an ongoing basis, Sprint develops, tests and rolls out various new technologies and support systems intended to help us compete in the industry. Successful implementation of technology upgrades depends on the success of contract negotiations and vendors meeting their obligations in a timely manner. We may not successfully complete the development and rollout of new technology in a timely manner, and any new technology may not be widely accepted by customers. In either case, we may not be able to compete effectively in the industry.

We use CDMA 2000 technology as our wireless air interface standard for our wireless PCS operations because we believe the technology is superior to the GSM family of air interface technologies. CDMA 2000 has a smaller market share of global wireless subscribers compared to GSM. As a result, we have a risk of higher costs for handsets and network infrastructure than competitors who use GSM.

We have entered into outsourcing agreements related to business operations. Any difficulties experienced in these arrangements could result in additional expense, loss of customers and revenue, interruption of our services or a delay in the roll-out of new technology.

We have entered into outsourcing agreements for the development and maintenance of certain software systems necessary for the operation of our business. We have also entered into agreements with third parties to provide service support to direct wireless subscribers. Finally, we have entered into an agreement whereby a third party will lease or operate a significant number of Sprint's communications towers, and Sprint will sublease space on these towers. As a result, we must rely on third parties to execute our operational priorities and interface with our customers. In some cases, the policies of the United States, individual states and foreign countries could affect the provision of these services. If these third parties are unable to perform to our requirements, we would have to pursue alternative strategies to provide these services and that could result in delays, interruptions, additional expenses and loss of customers.

Item 2. Properties

Sprint's gross property, plant and equipment at year-end 2004 totaled \$43.6 billion, distributed among the business segments as follows:

	2004 (billions)
Wireless	\$ 19.4
Local	19.5
Long distance	2.4
Other	2.3
Total	\$ 43.6

Wireless' properties consist of base transceiver stations, switching equipment and towers, as well as leased and owned general office facilities and retail stores. Wireless leases space for base station towers and switch sites for its network. At year-end 2004, Wireless had approximately 24,700 cell sites under lease (or options to lease).

In February 2005, Sprint reached a definitive agreement with Global Signal Inc. (Global Signal) under which Global Signal will have exclusive rights to lease or operate more than 6,600 communication towers owned by Sprint for a negotiated lease term which is the greater of the remaining terms of the underlying ground leases or up to 32 years, assuming successful re-negotiation of the underlying ground leases at the end of their current lease terms. Sprint has committed to sublease space on approximately 6,400 of the towers from Global Signal for a minimum of ten years. Sprint will maintain ownership of the towers, and will continue to reflect the towers on its Consolidated Balance Sheet.

Local's properties mainly consist of land, buildings, metallic cable and wire facilities, fiber-optic cable facilities, switching equipment and other electronics. Local has been granted easements, rights-of-way and rights-of-occupancy, mainly by municipalities and private landowners. Most cable facilities are buried, but some metallic and fiber cable is above-ground on telephone poles. In addition to owning its own poles, Local also contracts with other utilities, mainly electric companies, to connect cable and wire to their owned poles.

Long distance's properties mainly consist of land, buildings, switching equipment, digital fiber-optic network, and other transport facilities. Long distance has been granted easements, rights-of-way and rights-of-occupancy, mainly by railroads and other private landowners, for its fiber-optic network. Under various long-term lease and services agreements, MCI provides Sprint access to network facilities that compose approximately 12% of Sprint's long distance fiber network and a larger percentage of network traffic. These network facilities are also shared or utilized by MCI.

Sprint's corporate campus is located in the greater Kansas City metropolitan area. These assets are carried on Sprint's Consolidated Balance Sheets.

At December 31, 2004, \$796 million of Sprint's debt outstanding represents first mortgage debt and other capital lease obligations and is secured by \$15.3 billion of gross property, plant and equipment.

For information about commitments related to operating leases, see Note 17 of Notes to Consolidated Financial Statements.

Item 3. Legal Proceedings

In March 2004, eight purported class action lawsuits relating to the recombination of the tracking stocks were filed against Sprint and its directors by holders of PCS common stock. Seven of the lawsuits were consolidated in the District Court of Johnson County, Kansas. The eighth, pending in New York, has been voluntarily stayed. The consolidated lawsuit alleges breach of fiduciary duty in connection with allocations between the FON Group and the PCS Group before the recombination of the tracking stocks and breach of fiduciary duty in the recombination. The lawsuit seeks to rescind the recombination and monetary damages. In February 2005, the court denied defendants' motion to dismiss the complaint. All defendants have denied plaintiffs' allegations and intend to vigorously defend this matter.

In 2003, participants in the Sprint Retirement Savings Plan, the Sprint Retirement Savings Plan for Bargaining Unit Employees and the Centel Retirement Savings Plan for Bargaining Unit Employees filed suit in the U.S. District Court for the District of Kansas against Sprint, the committees that administer the plans, the plan trustee, and various current and former directors and officers. The consolidated lawsuit alleges that defendants breached their fiduciary duties to the plans and violated the ERISA statutes by making the company contribution in FON common stock and PCS common stock and including FON common stock and PCS common stock among the more than thirty investment options offered to plan participants. The lawsuit seeks to recover any decline in the value of FON common stock and PCS common stock during the class period. All defendants have denied plaintiffs' allegations and intend to vigorously defend this matter.

In September 2004, the U.S. District Court for the District of Kansas denied a motion to dismiss a shareholder lawsuit alleging that Sprint's 2001 and 2002 proxy statements were false and misleading in violation of federal securities laws to the extent they described new employment agreements with senior executives without disclosing that, according to the allegations, replacement of those executives was inevitable. These allegations, made in an amended complaint in a lawsuit originally filed in 2003, are asserted against Sprint and certain current and former officers and directors. The lawsuit seeks to recover any decline in the value of FON common stock and PCS

common stock during the class period. Following denial of the dismissal motion, the parties stipulated that the case can proceed as a class action. All defendants have denied plaintiffs' allegations and intend to vigorously defend this matter. The allegations in the original complaint, which asserted claims against Sprint, certain current and former officers and directors, and Sprint's former independent auditor, were dismissed by the court in April 2004.

We have been involved in legal proceedings in various states concerning the suspension of the processing or approval of permits for wireless telecommunications towers, the denial of applications for permits and other issues arising in connection with tower siting. There can be no assurance that such litigation and similar actions taken by others seeking to block the construction of individual cell sites of our Wireless network will not, in the aggregate, significantly delay further expansion of our network coverage.

Various other suits, proceedings and claims, including purported class actions, typical for a business enterprise, are pending against Sprint.

While it is not possible to determine the ultimate disposition of each of these proceedings and whether they will be resolved consistent with Sprint's beliefs, Sprint expects that the outcome of these proceedings, individually or in the aggregate, will not have a material adverse effect on the financial condition or results of operations of Sprint or its business segments.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders during the fourth quarter of 2004.

Item 10(b). Executive Officers of the Registrant

Office	Name	Age
Chairman and Chief Executive Officer	Gary D. Forsee ⁽¹⁾	55
President and Chief Operating Officer	Len J. Lauer ⁽²⁾	47
President—Local Telecommunications Division	Michael B. Fuller ⁽³⁾	60
President—Sprint Business Solutions	Howard E. Janzen ⁽⁴⁾	51
President—Sprint Consumer Solutions	Timothy E. Kelly ⁽⁵⁾	46
Executive Vice President—Chief Financial Officer	Robert J. Dellinger ⁽⁶⁾	44
Executive Vice President—General Counsel and External Affairs	Thomas A. Gerke ⁽⁷⁾	48
Executive Vice President—Chief Information Officer	Michael W. Stout ⁽⁸⁾	58
Executive Vice President—Network Services	Kathryn A. Walker ⁽⁹⁾	46
Senior Vice President and Treasurer	Gene M. Betts ⁽¹⁰⁾	52
Senior Vice President—Strategic Planning and Corporate Development	William R. Blessing ⁽¹¹⁾	49
Senior Vice President—Human Resources	James G. Kissinger ⁽¹²⁾	48
Senior Vice President and Controller	John P. Meyer ⁽¹³⁾	54

(1) Mr. Forsee was elected Chief Executive Officer in March 2003 and Chairman in May 2003. Before joining Sprint, he had served as Vice Chairman—Domestic Operations of BellSouth Corporation since January 2002, Chairman of Cingular Wireless since 2001 and President of BellSouth International since 2000. He had served as Executive Vice President and Chief Staff Officer of BellSouth Corporation since 1999.

(2) Mr. Lauer was elected President and Chief Operating Officer in September 2003. He also served as President—Sprint PCS from October 2002 until October 2004. He had served as President—Long Distance (formerly called Global Markets Group) since September 2000. He had been elected President—Sprint Business in June 2000. Mr. Lauer served as President—Consumer Services Group of Sprint/United Management Company, a subsidiary of Sprint, from 1999 to 2000.

(3) Mr. Fuller was elected President—Local Telecommunications Division in 1996.

(4) Mr. Janzen was elected President—Sprint Business Solutions in April 2004. He had served as President—Long Distance since May 2003. Before joining Sprint, he served as Chairman, President and Chief Executive Officer of Williams Communications Group, Inc., a high technology company, from 2001 until October 2002 when it emerged from bankruptcy as WiTel Communications Group, Inc. Williams Communications Group, Inc., filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code in April 2002. He became President and Chief Executive Officer of Williams Communications Group, Inc. in 1995.

(5) Mr. Kelly was elected President—Sprint Consumer Solutions in October 2004. He had served as Senior Vice President—Consumer Solutions Marketing, since October 2003. Before that, he served as President—Sprint Business. He had been elected President—Mass Markets in 2002 and President—National Consumer Organization, in 2001. From 1999 to 2001, he served as President of Tickets.com, an internet-based ticket software and distribution firm.

(6) Mr. Dellinger was elected Executive Vice President—Chief Financial Officer in June 2002. He had served as Executive Vice President—Finance since April 2002. Before joining Sprint, he had served as President and Chief Executive Officer of GE Frankona Re based in Munich, Germany with responsibility for the European operations of General Electric's Employers Reinsurance Corporation, a global reinsurer, from 2000 to 2002. From 2001 to 2002, he also served as President and Chief Executive Officer of General Electric's Employers Reinsurance Corporation's Property and Casualty Reinsurance Business in Europe and Asia. From 1997 to 2000, he served as Executive Vice President and Chief Financial Officer of General Electric's Employers Reinsurance Corporation.

(7) Mr. Gerke was elected Executive Vice President—General Counsel and External Affairs in May 2003. He had served as Vice President—GMG—Business Development in Long distance since June 2002. From September 2000 to June 2002, he served as Vice President—Corporate Secretary and Associate General Counsel of Sprint. He was elected Vice President—Law, General Business and Technology in 1999. Before that he held various other positions in Sprint's legal department.

(8) Mr. Stout was elected Executive Vice President—Chief Information Officer in May 2003. Before joining Sprint, he served as Vice President and Chief Technology and Information Officer for GE Capital, a global financial services company, since 1998.

(9) Ms. Walker was elected Executive Vice President—Network Services in October 2003. She had served as Senior Vice President—Network Operations for Sprint Communications Company L.P., Sprint's long distance subsidiary, since 2002. She had served as a Vice President in the Long distance division since 1998.

(10) Mr. Betts was elected Senior Vice President in 1990. He was elected Treasurer in 1998.

(11) Mr. Blessing was elected Senior Vice President—Strategic Planning and Corporate Development in October 2003. He had served as Vice President—Strategic Planning and Business Development—Sprint PCS for Sprint Spectrum L.P., a Sprint subsidiary, since 2000. He had been elected Vice President—Strategic Planning—Sprint PCS for Sprint/United Management Company in 1999.

(12) *Mr. Kissinger was elected Senior Vice President—Human Resources in April 2003. He had served as Vice President—HR Operations for Sprint/United Management Company since 1996.*

(13) *Mr. Meyer was elected Senior Vice President—Controller in 1993.*

There are no known family relationships between any of the persons named above or between any of these persons and any outside directors of Sprint. Officers are elected annually.

Part II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Common Stock Data

	2004 Market Price		
	High	Low	End of Period
FON Common Stock, Series 1			
First quarter	\$19.51	\$15.74	\$18.43
Second quarter	19.99	16.83	17.60
Third quarter	20.54	17.10	20.13
Fourth quarter	25.80	19.81	24.85
PCS Common Stock, Series 1			
First quarter	10.70	5.51	9.20
Second quarter ⁽¹⁾	9.99	9.16	9.56

	2003 Market Price		
	High	Low	End of Period
FON Common Stock, Series 1			
First quarter	\$16.76	\$11.06	\$11.75
Second quarter	15.10	10.22	14.40
Third quarter	16.20	13.55	15.10
Fourth quarter	16.72	14.72	16.42
PCS Common Stock, Series 1			
First quarter	5.28	3.10	4.36
Second quarter	6.48	3.40	5.75
Third quarter	6.79	4.80	5.73
Fourth quarter	6.31	3.80	5.62

⁽¹⁾ On April 23, 2004, Sprint recombined its two tracking stocks. Each share of PCS common stock automatically converted into 0.5 shares of FON common stock. As of April 23, 2004, the FON Group and the PCS Group no longer exist, and FON common stock represents all of the operations and assets of Sprint, including Wireless, Local and Long distance.

As of February 28, 2005, Sprint had approximately 62,700 FON common stock, Series 1 record holders, and thirteen FON common stock, Series 2 record holders. The principal trading market for Sprint's FON common stock, Series 1 is the New York Stock Exchange. The FON common stock, Series 2 is not publicly traded. Sprint paid a dividend of \$0.125 per share on FON common stock, Series 1 in each of the quarters of 2004 and 2003 and a dividend of \$0.125 per share on FON common stock, Series 2 in each of the last three quarters of 2004.

Sale of Unregistered Equity Securities

In December 2004, Sprint issued to certain of its directors and current and former executive officers an aggregate of 4,439 unregistered restricted stock units relating to shares of FON common stock. These restricted stock units were the result of dividend equivalent rights attached to restricted stock units granted to these directors and officers in 2003. Each restricted stock unit represents the right to one share of FON common stock once the unit vests. The restricted stock units are scheduled to vest beginning in 2005 and ending in 2007. Delivery of the shares may be delayed under certain circumstances.

Neither these restricted stock units nor the common stock issuable once the units vest were registered under the Securities Act of 1933. The issuance of the restricted stock units was exempt from registration under the Securities Act in reliance on the exemption provided by Section 4(2) of the Securities Act because the restricted stock units were issued in transactions not involving a public offering.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share ^{(2),(3)}	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 through October 31 FON common stock	—	\$ —	—	—
November 1 through November 30 FON common stock	323	\$ 22.285	—	—
December 1 through December 31 FON common stock	2,434	\$ 21.999	—	—

(1) All acquisitions of equity securities during the 2004 fourth quarter were the result of the operation of the terms of Sprint's shareholder approved equity compensation plans (the Management Incentive Stock Option Plan and the 1997 Long-Term Stock Incentive Program) and the terms of the equity grants pursuant to those plans, as follows: the forfeiture of restricted stock; the surrender of restricted stock to pay required minimum income, Medicare and FICA tax withholding on the vesting of restricted stock; and the delivery of previously owned shares owned by the grantee to pay additional income tax withholding on (i) the vesting of restricted stock, (ii) the delivery of shares underlying restricted stock units, and (iii) the exercise of options. Excludes shares used for the exercise price of options and required minimum tax withholding on the exercise of options and the delivery of shares underlying restricted stock units when only the net shares were issued.

(2) Excludes the amount paid in the 2004 fourth quarter for fractional shares of FON common stock acquired in the 2004 second quarter recombination of the PCS common stock and FON common stock. Pursuant to Sprint's Articles of Incorporation, the cash value per share is determined by averaging the high and low reported sales price of the FON common stock on the fifth trading day before the date on which the payment is made. The payment is made when the certificates for PCS common stock are surrendered for exchange. In the 2004 fourth quarter, payment was made for an aggregate of 69 shares of FON common stock at an average price per share of \$20.67.

(3) Excludes forfeited restricted stock since the purchase price was zero. The purchase price of a share of stock used for tax withholding is the amount of withholding paid per share used for that purpose, which is the market price of the stock on the date of vesting of the restricted stock, the delivery date of the stock underlying restricted stock units, and the date of the exercise of the option.

No options may be granted pursuant to the Management Incentive Stock Option Plan after April 18, 2005. No awards may be granted pursuant to the 1997 Long-Term Stock Incentive Program after April 15, 2007. Options, restricted stock awards and restricted stock unit awards outstanding on those dates may continue to be outstanding after those dates. Sprint cannot estimate how many shares will be acquired in the manner described in footnote (1) to the table above through operation of these plans.

Item 6. Selected Financial Data

Consolidated Selected Financial Data

	2004	2003	2002	2001	2000
	<i>(millions, except per share data)</i>				
Results of Operations					
Net operating revenues	\$27,428	\$26,197	\$26,679	\$25,562	\$23,166
Operating income (loss) ^{(1),(3)}	(303)	1,007	2,096	(910)	280
Income (Loss) from continuing operations ^{(1),(2),(3)}	(1,012)	(292)	451	(1,599)	(788)
Earnings (Loss) per Share and Dividends					
Diluted and basic earnings (Loss) per common share from continuing operations: ^{(1),(2),(3),(4),(5)}	\$ (0.71)	\$ (0.21)	\$ 0.32	\$ (1.16)	\$ (0.58)
Dividends per common share ⁽⁶⁾	—	—	—	—	—
Financial Position					
Total assets	\$41,321	\$42,675	\$45,113	\$45,619	\$42,943
Property, plant and equipment, gross	43,562	53,994	51,807	48,508	42,938
Property, plant and equipment, net	22,628	27,101	28,565	28,786	25,166
Total debt (including short-term and long-term borrowings, equity unit notes and redeemable preferred stock)	17,451	19,407	22,273	22,883	18,975
Shareholders' equity	13,521	13,113	12,108	12,450	13,596
Cash Flow Data					
Net cash from operating activities—continuing operations	\$ 6,625	\$ 6,515	\$ 6,178	\$ 4,499	\$ 4,028
Capital expenditures	3,980	3,797	4,821	8,982	7,084

Certain prior-year amounts have been reclassified to conform to the current-year presentation. These reclassifications had no effect on the results of operations or shareholders' equity as previously reported.

See footnotes following Consolidated Selected Financial Data.

(1) In 2004, Sprint recorded charges reducing Sprint's operating income by \$3.72 billion to an operating loss and reducing income from continuing operations by \$2.33 billion to an overall loss from continuing operations. The charges related primarily to restructurings and a long distance network impairment, partially offset by recoveries of fully reserved MCI (formerly WorldCom) receivables.

In 2003, Sprint recorded net charges reducing Sprint's operating income by \$1.94 billion and reducing income from continuing operations by \$1.20 billion resulting in an overall loss from continuing operations. The charges related primarily to restructurings, asset impairments, and executive separation agreements, offset by recoveries of fully reserved MCI (formerly WorldCom) receivables.

In 2002, Sprint recorded charges reducing Sprint's operating income by \$402 million and reducing income from continuing operations by \$253 million. The charges related primarily to restructurings, asset impairments and expected loss on WorldCom (now MCI) receivables.

In 2001, Sprint recorded charges reducing Sprint's operating income by \$1.84 billion to an operating loss and increasing the loss from continuing operations by \$1.15 billion. The charges related primarily to restructuring and asset impairments.

In 2000, Sprint recorded charges reducing Sprint's operating income by \$425 million and increasing the loss from continuing operations by \$273 million. The charges related to the terminated WorldCom (now MCI) merger and asset impairments.

(2) In 2004, Sprint recorded charges of \$72 million, net, for premiums paid on the early retirement of debt and the recognition of deferred debt costs. These charges increased loss from continuing operations by \$44 million.

In 2003, Sprint recorded charges of \$36 million, for premiums paid on the early retirement of debt and for the settlement of a securities class action lawsuit relating to the failed merger with WorldCom (now MCI). Additionally, Sprint recorded a \$49 million tax benefit for the recognition of certain income tax credits and adjustments for state tax apportionments. In total, these items reduced loss from continuing operations by \$27 million.

In 2002, Sprint recorded charges of \$134 million, related to a write-down of an investment due to declining market value offset by gains on the sales of customer contracts and Sprint's investment in Pegaso. Additionally, Sprint recognized a tax benefit related to capital losses not previously recognizable of \$292 million. In total, these items reduced loss from continuing operations by \$143 million.

In 2001, Sprint recorded charges of \$48 million which increased the loss from continuing operations by \$81 million. These amounts primarily included a write-down of an equity investment offset by a curtailment gain on the modification of certain retirement plan benefits and a gain on investment activities.

In 2000, Sprint recorded charges of \$68 million, which increased the loss from continuing operations by \$74 million. The charges related primarily to write-downs of certain equity investments, offset by a gain from the sale of subscribers and network infrastructure to a PCS third party affiliate.

(3) Sprint adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, on January 1, 2002. Accordingly, amortization of goodwill, spectrum licenses and trademarks ceased as of that date because they are indefinite life intangibles.

(4) As the effects of including the incremental shares associated with options, restricted stock units and employees stock purchase plan shares are antidilutive, both basic loss per share and diluted loss per share reflect the same calculation for years ended December 31, 2004, 2003, 2001 and 2000.

(5) All per share amounts have been restated, for all periods before 2004, to reflect the recombination of the FON common stock and PCS common stock as of the earliest period presented at an identical conversion ratio (0.50). The conversion ratio was also applied to dilutive PCS securities (mainly stock options, employees stock purchase plan shares, convertible preferred stock, and restricted stock units) to determine diluted weighted average shares on a consolidated basis.

(6) Before the recombination of Sprint's two tracking stocks, shares of PCS common stock did not receive dividends. For each of the five years ended December 31, shares of FON common stock (before the conversion of shares of PCS common stock) received dividends of \$0.50 per share. In the 2004 first quarter, shares of FON common stock (before the conversion of shares of PCS common stock) received a dividend of \$0.125 per share. In the second, third and fourth quarters of 2004, shares of FON common stock, which included shares resulting from the conversion of shares of PCS common stock, received quarterly dividends of \$0.125 per share.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking Information

Sprint includes certain estimates, projections and other forward-looking statements in its reports and in other publicly available material. Statements regarding expectations, including performance assumptions and estimates relating to capital requirements, as well as other statements that are not historical facts, are forward-looking statements.

These statements reflect management's judgements based on currently available information and involve a number of risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. With respect to these forward-looking statements, management has made assumptions regarding, among other things, customer and network usage, customer growth and retention, pricing, operating costs and the economic environment.

Future performance cannot be ensured. Actual results may differ materially from those in the forward-looking statements. Some factors that could cause actual results to differ include:

- the uncertainties related to, and the impact of, our proposed merger with Nextel and the contemplated spin-off of our local telecommunications business;
- the effects of vigorous competition and the overall demand for Sprint's service offerings in the markets in which Sprint operates;
- the costs and business risks associated with providing new services and entering new markets;
- adverse change in the ratings afforded our debt securities by ratings agencies;
- the ability of Wireless to continue to grow and improve profitability;
- the ability of Local and Long distance to achieve expected revenues;
- the effects of mergers and consolidations in the telecommunications industry and unexpected announcements or developments from others in the telecommunications industry;
- the uncertainties related to bankruptcies affecting the telecommunications industry;
- the uncertainties related to Sprint's investments in networks, systems, and other businesses;
- the uncertainties related to the implementation of Sprint's business strategies, including our initiative to realign services to enhance the focus on business and individual consumers;
- the impact of new, emerging and competing technologies on Sprint's business;
- unexpected results of litigation filed against Sprint;
- the risk of equipment failure, natural disasters, terrorist acts, or other breaches of network or information technology security;

- the risk that third parties are unable to perform to our requirements under agreements related to our business operations;
- the possibility of one or more of the markets in which Sprint competes being impacted by changes in political or other factors such as monetary policy, legal and regulatory changes or other external factors over which Sprint has no control; and
- other risks referenced from time to time in Sprint's filings with the Securities and Exchange Commission (SEC).

The words "estimate," "project," "forecast," "intend," "expect," "believe," "target," "providing guidance," and similar expressions are intended to identify forward-looking statements. Forward-looking statements are found throughout Management's Discussion and Analysis. The reader should not place undue reliance on forward-looking statements, which speak only as of the date of this report. Sprint is not obligated to publicly release any revisions to forward-looking statements to reflect events after the date of this report or unforeseen events. Sprint provides a detailed discussion of risk factors in various SEC filings, and you are encouraged to review these filings.

Overview

Business

Sprint is a global communications company offering an extensive range of innovative communication products and solutions, including wireless, long distance voice and data transport, global Internet Protocol (IP), local and multiproduct bundles. Sprint is a Fortune 100 company widely recognized for developing, engineering and deploying state-of-the-art technologies.

Sprint operates a 100% digital personal communications service (PCS) wireless network with licenses to provide service to the entire United States population, including Puerto Rico and the U.S. Virgin Islands, using a single frequency band and a single technology. Sprint, together with third party affiliates, operates PCS wireless systems in over 350 metropolitan markets, including the 100 largest U.S. metropolitan areas. Sprint's wireless service, including third party affiliates, reaches a quarter billion people. Combined with our wholesale partners and Sprint PCS Affiliates, we served a total of 24.7 million wireless subscribers at the end of 2004. Sprint currently serves approximately 7.7 million access lines in its franchise territories in 18 states. Sprint is selling into the cable telephony market through arrangements with cable companies that resell Sprint long distance service and/or use Sprint back office systems and network assets in support of their local telephone service provided over cable facilities. Sprint is one of the largest carriers of Internet traffic, and provides connectivity to any point on the Internet either through its own network or via direct connections with other backbone providers.

In 2003, Sprint sold its directory publishing business to R.H. Donnelley for \$2.23 billion in cash.

Elimination of Tracking Stocks

On April 23, 2004, Sprint recombined its two tracking stocks. Each share of PCS common stock automatically converted into 0.5 shares of FON common stock. As of April 23, 2004, the FON Group and the PCS Group no longer exist, and FON common stock represents all of the operations and assets of Sprint, including Wireless, Local and Long distance.

Proposed Merger and Contemplated Spin-off

In December 2004, the boards of directors of Sprint Corporation and Nextel Communications, Inc. (Nextel) each unanimously approved a strategic merger combining Sprint and Nextel in what we intend to be a "merger of equals." When the proposed merger is completed, Sprint will change its name to Sprint Nextel Corporation and the Sprint Nextel common stock will be quoted on the New York Stock Exchange. Existing shares of Sprint common stock will remain outstanding as Sprint Nextel common stock, as Sprint is the acquiring entity for legal and accounting purposes. Under the terms of the merger agreement, at closing each share of Nextel class A common stock and Nextel class B common stock will be converted into shares of Sprint Nextel common stock and Sprint Nextel non-voting common stock, respectively, as well as a small per share amount of cash, with a total value expected to equal 1.3 shares of Sprint Nextel common stock. Nextel zero-coupon, convertible, redeemable preferred stock will be converted into Sprint Nextel zero-coupon, convertible, redeemable preferred stock.

The proposed merger is subject to shareholder approval, as well as various regulatory approvals. It is subject to other customary closing conditions and is expected to be completed in the second half of 2005.

Sprint and Nextel intend to spin-off Sprint's local telecommunications business after the proposed merger is completed. In order to facilitate the spin-off on a tax-free basis, the exact allocation of cash and shares of Sprint Nextel common stock that Nextel common stockholders will receive in the proposed merger will be adjusted at the time the merger is completed. The aggregate cash portion of the merger consideration is capped at \$2.8 billion.

Statements contained in this annual report relating to our business strategies, operating plans, planned expenditures, expected capital requirements, future dividend payments and other forward-looking statements regarding our business do not take into account potential future impacts of our proposed merger with Nextel or the contemplated spin-off of our local telecommunications business.

Business Environment

Sprint's operations are divided into three lines of business: Wireless, Local and Long distance operations. In the 2003 fourth quarter, Sprint undertook an initiative to realign internal resources (Organizational Realignment). This effort was implemented to enhance our focus on the needs and preferences of two distinct consumer types— businesses and individuals. This effort is enabling Sprint to more effectively and efficiently use its portfolio of assets to create customer-focused communications solutions. Sprint continues to measure its results using the current business segmentation, taking into consideration the re-aligned customer-focused approach in 2004.

The Organizational Realignment resulted in and could continue to result in decisions requiring restructuring charges and asset impairments. See Note 7 of Notes to Consolidated Financial Statements for more information relating to these activities.

Sprint operates in an industry that has been and continues to be subject to consolidation and dynamic change. Therefore, Sprint routinely reassesses its business strategies. Due to changes in telecommunications, including bankruptcies, over-capacity and the highly competitive pricing environment in all telecommunications sectors, Sprint has taken actions to appropriately allocate capital and other resources to enable sustaining cash contribution. Sprint routinely assesses the implications of these actions on its operations and these assessments may continue to impact the future valuation of its long-lived assets.

As part of its overall business strategy, Sprint regularly evaluates opportunities to expand and complement its business and may at any time be discussing or negotiating a transaction that, if consummated, could have a material effect on its business, financial condition, liquidity or results of operations.

In February 2005, Sprint reached a definitive agreement with Global Signal Inc. (Global Signal) under which Global Signal will have exclusive rights to lease or operate more than 6,600 communication towers owned by Sprint for a negotiated lease term which is the greater of the remaining terms of the underlying ground leases or up to 32 years, assuming successful re-negotiation of the underlying ground leases at the end of their current lease terms. Sprint has committed to sublease space on approximately 6,400 of the towers from Global Signal for a minimum of ten years. Sprint will maintain ownership of the towers, and will continue to reflect the towers on its Consolidated Balance Sheet.

Results of Operations

Management Overview

In 2004, Sprint executed against its plan and created positive momentum moving into 2005, a period of continuing dynamic change in the telecommunications industry. Highlights of the key successes and themes which shaped the year include:

- At the beginning of the year, we re-organized our marketing, sales and support teams to focus on the specific needs of two types of consumers—businesses and individuals.
- We recombined our tracking stocks in the 2004 second quarter. This aligned our capital structure with our integrated asset portfolio and reflects our transition from a product focused organization to a structure driven by customer needs.
- We increased revenues 5% compared to 2003, primarily through growth in Wireless revenues and steady performance in Local offset by a decline in Long distance. By year-end 2004, approximately 65 percent of our revenue came from wireless, internet and other data services, such as DSL. This underscores the importance of our balanced mix of assets. Even as Long distance and Local continued to feel the pressure from technology substitution, usage trends and competition, our results in growth sectors like wireless data and DSL helped offset the impacts to our bottom line.
- We improved the customer experience. In Wireless, we instituted "Sprint PCS Fair & FlexibleSM" pricing and the Better Wireless Guarantee. Subscribers are enjoying more of our advanced features and options, as was shown in the growth of data. In Local, we have been very successful with our bundled offerings, and by year-end, 70 percent of households subscribed to at least one strategic product.
- We exceeded our debt reduction targets for 2004. We reduced debt by \$2.0 billion and ended the year with more than \$2.1 billion of additional cash and cash equivalents.

- In December, we announced our proposed "merger of equals" with Nextel and contemplated spin-off of the local telecommunications business.

During the year, we faced challenges as well. In those situations, we made difficult decisions and took action to sustain momentum.

- We spent significant resources restoring service and normalcy to those areas impacted by the hurricanes in the Southeast region of the United States.
- Industry-wide business conditions in the long distance industry, including highly-competitive market pricing and a negative regulatory climate, triggered a re-evaluation of our strategy and financial forecasts, and determined that a write-down of the Long distance network of \$3.52 billion was required. We recorded that impairment in value in the 2004 third quarter.

The phrase we believe describes Sprint in 2004 is "focused execution."

Consolidated

	2004	2003	2002
		(millions)	
Net operating revenues	\$27,428	\$26,197	\$26,679
Income (Loss) from continuing operations	\$ (1,012)	\$ (292)	\$ 451

Net operating revenues increased 4.7% in 2004 reflecting growth in Wireless revenues partially offset by declining Long distance and Local revenues.

Sprint's income (loss) from continuing operations in 2004, 2003 and 2002 includes the after-tax impacts of the items discussed below.

In 2004, Sprint recorded net restructuring and asset impairment charges of \$2.3 billion related to the impairment of Sprint's Long distance property, plant and equipment and severance costs associated with Sprint's Organizational Realignment and Web Hosting wind-down activities. Also included in 2004 was a \$44 million charge related to the early retirement of senior notes and equity unit notes. These charges consist of premiums paid and the recognition of deferred debt costs. These charges were partially offset by a benefit of \$9 million resulting from the receipt of the final payments of a bankruptcy settlement with MCI.

In 2003, Sprint recorded net restructuring charges and asset impairments of \$1.2 billion. These charges were associated with the write-down due to the decline in fair value of Multipoint Multichannel Distribution Services spectrum, now called Broadband Radio Services (BRS), other asset impairment charges, facilities and severance charges associated with the termination of the web hosting business, impairment charges associated with the termination of development of a new billing platform, impairment charges associated with the termination of software development projects, and severance costs associated with Sprint's transformation to a customer-focused organizational design, offset by the finalization of all 2001 and 2002 restructuring liabilities. Also included in 2003 was a \$22 million charge in connection with separation agreements with three former executive officers, a \$13 million charge mainly reflecting the premiums paid on a debt tender offer and the early retirement of Local debt, and a \$9 million charge to settle a securities class action and derivative lawsuit relating to the failed merger with WorldCom (now MCI). These charges were partially offset by a \$49 million tax benefit for recognition of certain income tax credits relating to various taxing jurisdictions and adjustments for state tax apportionments and a \$31 million settlement of accounts receivable claims with MCI that had previously been fully reserved.

In 2002, Sprint recorded restructuring charges and asset impairments of \$154 million representing consolidations in Sprint's Network, Information Technology, and Billing and Accounts Receivable organizations, impairment of a network asset, abandoned network project costs and additional steps to reduce overall operating costs. Also included in 2002 were the expected loss on receivables due to the bankruptcy declaration of WorldCom (now MCI) of \$23 million, a net restructuring and asset impairment charge of \$76 million, a gain on the sale of Wireless' investment in Pegaso Telecomunicaciones, S.A. de C.V. (Pegaso) of \$67 million, a gain from the sale of customer contracts of \$25 million, the write-down of an investment due to declining market value of \$241 million, and a tax benefit related to capital losses not previously recognizable of \$292 million.

Critical Accounting Policies

The fundamental objective of financial reporting is to provide useful information that allows a reader to comprehend the business activities of Sprint. To aid in that understanding, management has identified Sprint's "critical accounting policies". These policies are considered "critical" because they have the potential to have a material impact on Sprint's financial statements, and because they require judgements and estimation due to the uncertainty involved in measuring, at a specific point in time, events which are continuous in nature.

- **Long-lived Asset Recovery**—A significant portion of Sprint's total assets are long-lived assets, consisting primarily of property, plant and equipment ("PP&E") and definite life intangibles, as well as goodwill and indefinite life intangibles. Changes in technology or in Sprint's intended use of these assets, as well as changes in broad economic or industry factors, may cause the estimated period of use or the value of these assets to change.

Depreciable Lives of Assets

Sprint performs annual internal studies to confirm the appropriateness of depreciable lives for each category of PP&E. These studies utilize models, which take into account actual usage, physical wear and tear, replacement history, and assumptions about technology evolution, and use in certain instances actuarially-determined probabilities to calculate remaining life of our asset base.

Sprint believes that the accounting estimate related to the establishment of asset depreciable lives is a "critical accounting estimate" because: (1) it requires Sprint management to make assumptions about technology evolution and competitive uses of assets, and (2) the impact of changes in these assumptions could be material to our financial position, as well as our results of operations. Management's assumptions about technology and its future development require significant judgement because the timing and impacts of technology advances are difficult to predict, and actual experience has varied from previous assumptions and could continue to do so.

If Sprint's studies had resulted in a depreciable rate that was 5% higher or lower than those used in the preparation of Sprint's consolidated financial statements, recorded depreciation expense would have been impacted by approximately \$249 million.

Property, Plant and Equipment and Definite Life Intangibles Impairment

PP&E and definite life intangibles are evaluated for impairment whenever indicators of impairment exist. Accounting standards require that if an impairment indicator is present, Sprint must assess whether the carrying amount of the asset is unrecoverable by estimating the sum of the future cash flows expected to result from the asset, undiscounted and without interest charges. If the carrying amount is more than the recoverable amount, an impairment charge must be recognized, based on the fair value of the asset.

Sprint believes that the accounting estimate related to asset impairment is a "critical accounting estimate" because: (1) it requires Sprint management to make assumptions about future revenues and costs of sales over the life of the asset, (2) judgement is involved in determining the occurrence of a "triggering event," and (3) the impact that recognizing an impairment would have on our financial position, as well as our results of operations, could be material. Management's assumptions about future revenues require significant judgement because actual revenues have fluctuated in the past and may continue to do so.

In estimating future revenues, we use our internal business forecasts. We develop our forecasts based on recent revenue data for existing products and services, planned timing of new products and services, and other industry and economic factors.

When indicators are present, Sprint tests for impairment. This resulted in total PP&E impairments of \$3.54 billion, \$652 million, and \$198 million in 2004, 2003, and 2002, respectively. In 2004, Sprint recorded \$3.52 billion related to an impairment of the Long distance network assets and \$21 million related to the write-down of the wholesale Dial IP assets prior to the sale of that business in October, 2004. These impairments represent 54% of Long distance's net PP&E and 13% of the consolidated net PP&E at December 31, 2003. In 2003, Sprint recorded \$303 million associated with the termination of its Web Hosting business and \$349 million associated with the terminated development of a new billing platform and a software development project. These impairments represent two percent of the December 31, 2002 consolidated net PP&E. In 2002, Sprint recorded \$156 million for network asset impairments and \$42 million for abandoned network projects. These impairments represent less than one percent of the December 31, 2001 consolidated net PP&E.

Goodwill and Indefinite Life Intangibles

Goodwill and indefinite life intangibles are reviewed at least annually for impairment, or more frequently if indicators of impairment exist. Goodwill is tested by comparing net book value of the reporting unit (identified as Sprint's operating segments) to fair value of the reporting unit. Indefinite life intangibles are tested by comparing book value to estimated fair value of the asset.

Sprint believes that the accounting estimate related to goodwill and indefinite life intangibles is a "critical accounting estimate" because (1) it requires Sprint management to make assumptions about fair values, (2) judgement is involved in determining the occurrence of a "triggering event," and (3) the impact of recognizing an impairment could be material to our financial position, as well as our results of operations.

Management's assumptions about fair values require significant judgement because broad economic factors, industry factors and technology considerations can result in variable and volatile fair values.

Management completed impairment analyses on both goodwill and indefinite life intangibles in the 2004 fourth quarter. These tests were performed internally. As of December 31, 2004, no impairments existed.

In the 2003 third quarter, Sprint decided to end pursuit of a residential fixed wireless strategy using its BRS spectrum. This decision required an impairment analysis of the asset. A decline in the fair value of BRS drove Long distance to record a pre-tax, non-cash charge of \$1.2 billion, which reduced the carrying value to \$300 million. Sprint continues to focus its efforts on a broad range of alternative strategies. Sprint is continuing to invest in the spectrum, is monitoring technology and industry developments, and is involved in efforts to achieve favorable regulatory rulings with respect to this spectrum.

- **Employee Benefit Plan Assumptions**—Retirement benefits are a significant cost of doing business for Sprint and yet represent obligations that will be settled far in the future. Retirement benefit accounting is intended to reflect the recognition of the future benefit costs over the employee's expected tenure with Sprint based on the terms of the plans and the investment and funding decisions made by Sprint. The accounting requires that management make assumptions regarding such variables as the return on assets, the discount rate and future health care costs. Changes in these key assumptions can have a significant impact on the projected benefit obligation and periodic benefit cost incurred by Sprint.

Sprint believes that the accounting estimate related to retirement benefit accounting is a "critical accounting estimate" because: (1) it requires Sprint management to make assumptions about discount rates, future health care costs, and future return on assets funding the obligation; and (2) the impact that changes in actual performance versus these estimates would have on the projected benefit obligation reported on our balance sheet and the benefit cost could be material.

In determining pension obligations, assumptions are required concerning market performance. Market performance has fluctuated in the recent past and could have continued volatility in the future. In selecting its assumptions, Sprint uses historical experience, as well as objective indices, as benchmarks, and tests the benchmarks against historical industry data on these assumptions provided by an independent actuary. An increase in the discount rate would reduce the reported projected benefit obligation. In contrast, if the discount rate in 2004 used in determining the projected benefit obligation was 25 basis points lower, it would generate a \$176 million increase in the projected benefit obligation reported on the balance sheet, and a \$39 million increase in the benefit costs. Similarly, if the expected return on assets assumption was 25 basis points lower, it would generate a \$9 million increase in current year benefit costs. This assumption is not used in calculation of the pension projected benefit obligation.

In determining post-retirement medical and life insurance benefit obligations, assumptions are made concerning the cost of health care. A one-percentage point increase in the assumed medical inflation rate would generate an \$84 million increase in the accumulated postretirement benefit obligation reported on the balance sheet, and a \$5 million increase in benefit costs. An increase in the discount rate would reduce the reported accumulated postretirement benefit obligation. In contrast, if the discount rate in 2004 used in determining the accumulated postretirement benefit obligation was 25 basis points lower, it would generate a \$13 million increase in the reported year-end 2004 obligation and an immaterial impact on benefit costs.

- **Tax Valuation Allowances**—Sprint is required to estimate the amount of tax payable or refundable for the current year and the deferred income tax liabilities and assets for the future tax consequences of events that have been reflected in its financial statements or tax returns for each taxing jurisdiction in which it operates. This process requires Sprint's management to make assessments regarding the timing and probability of the ultimate tax impact. Sprint records valuation allowances on deferred tax assets to reflect the expected realizable future tax benefits. Actual income taxes could vary from these estimates due to future changes in income tax law, the proposed spin-off of Local, significant changes in the jurisdictions in which Sprint operates, Sprint's inability to generate sufficient future taxable income or unpredicted results from the final

determination of each year's liability by taxing authorities. These changes can have a significant impact on the financial position of Sprint.

Sprint believes that the accounting estimate related to establishing tax valuation allowances is a "critical accounting estimate" because: (1) it requires Sprint management to make assessments about the timing of future events, including the probability of expected future taxable income and available tax planning opportunities, and (2) the impact changes in actual performance versus these estimates could have on the realization of tax benefit as reported in our results of operations could be material. Management's assumptions require significant judgement because actual performance has fluctuated in the past and may continue to do so.

Sprint currently carries an income tax valuation allowance of \$670 million on its books. This amount includes a valuation allowance for the total tax benefits related to net operating loss carryforwards, subject to utilization restrictions, acquired in connection with certain acquisitions. The remainder of the valuation allowance relates primarily to state net operating loss and tax credit carryforwards. Assumption changes which result in a reduction of expected benefits from realization of state net operating loss and tax credit carryforwards by 10% would increase our valuation allowance by \$36 million.

- **Revenue Recognition Policies**—Sprint recognizes operating revenues as services are rendered or as products are delivered to customers in accordance with SEC Staff Accounting Bulletin No. 104, *Revenue Recognition*. In connection with recording revenue, estimates and assumptions are required in determining the expected conversion of the revenue streams to cash collected. The revenue estimation process requires management to make assumptions based on historical results, future expectations, the economic and competitive environment, changes in the credit worthiness of our customers, and other relevant factors. Changes in these key assumptions can have a significant impact on the projection of cash collected and the periodic revenue stream recognized by Sprint.

Sprint believes that the accounting estimates related to the establishment of revenue and receivable reserves and the associated provisions in the results of operations is a "critical accounting estimate" because: (1) it requires Sprint management to make assumptions about future billing adjustments for disputes with customers, unauthorized usage, future returns on asset sales and future access adjustments for disputes with competitive local exchange carriers and inter-exchange carriers, as well as the future economic viability of our customer base; and (2) the impact of changes in actual performance versus these estimates would have on the accounts receivable reported on our balance sheet and the results reported in our statements of operations could be material. In selecting these assumptions, Sprint uses historical trending of write-offs, industry norms, regulatory decisions and recognition of current market indicators about general economic conditions which might impact the collectibility of accounts.

If the 2004 revenue reserve estimates were to be increased by 100 basis points (bps), it would represent a reduction of net operating revenues of approximately \$11 million for Wireless, less than \$1 million for Local and approximately \$10 million for Long distance. If the 2004 accounts receivable reserve estimates were to be increased by 100 bps, it would represent an increase in bad debt expense of approximately \$15 million for Wireless, \$4 million for Local and \$10 million for Long distance.

Management believes the reserve estimate selected, in each instance, represents its best estimate of future outcomes, but the actual outcomes could differ from the estimate selected.

Segmental Results of Operations

Wireless

Wireless operates a 100% digital PCS wireless network with licenses to provide service to the entire United States population, including Puerto Rico and the U.S. Virgin Islands, using a single frequency band and a single technology. Wireless, together with third party affiliates, operates PCS systems in over 350 metropolitan markets, including the 100 largest U.S. metropolitan areas, and reaches a quarter billion people. Combined with our wholesale partners and Sprint PCS Affiliates, Wireless served 24.7 million subscribers at the end of 2004. Wireless provides nationwide service through a combination of:

- operating its own digital network in major U.S. metropolitan areas using code division multiple access (CDMA), which is a digital spread-spectrum wireless technology that allows a large number of users to

access a single frequency band by assigning a code to all voice and data bits, sending a scrambled transmission of the encoded bits over the air and reassembling the voice and data into its original format,

- affiliating under commercial arrangements with other companies that use CDMA, mainly in and around smaller U.S. metropolitan areas,
- roaming on other providers' analog cellular networks using multi-mode and multi-band handsets, and
- roaming on other providers' digital networks that use CDMA.

Wireless subscribers can use their phones through roaming agreements in countries other than the United States, including areas of:

- Asia Pacific, including China, Guam, Hong Kong, Taiwan, Thailand and New Zealand,
- Canada and Mexico,
- Central and South America, including Argentina, Bolivia, Chile, Ecuador, Guatemala, Paraguay, Peru, Uruguay and Venezuela, and
- Most major Caribbean Islands.

Sprint's third generation (3G) capability allows more efficient utilization of the network when voice calls are made using 3G-enabled handsets. It also provides enhanced data services. The service, marketed as "Sprint PCS VisionSM," allows consumer and business customers to use their Vision-enabled PCS devices to exchange instant messages, exchange personal and corporate e-mail, send and receive pictures, play games with full-color graphics and polyphonic sounds and browse the Internet wirelessly with speeds up to 144 kbps (with average speeds of 50 to 70 kbps).

Sprint is continuing to execute its plans for faster wireless data speeds by deploying Evolution Data Optimized (EV-DO) technology across the Sprint Nationwide PCS Network. With average users speed of 300-500 kilobits per second and peak rates of up to 2.4 megabits per second for downloads, EV-DO will provide mobile-device data speeds up to 10 times faster than on our current network. In addition, this technology is expected to deliver superior application and service performance on EV-DO-capable handsets and laptops equipped with EV-DO-enabled Sprint PCS Connection Cards[™]. Sprint is targeting the first commercial roll-out of EV-DO in the 2005 second quarter and subsequent roll-outs throughout 2006. Additional traffic volumes related to EV-DO may require future capital expenditures.

Wireless supplements its own network through commercial affiliation arrangements with other companies that use CDMA. Under these arrangements, these companies offer wireless services under Sprint's brand on CDMA networks built and operated at their own expense. We call these companies Sprint PCS Affiliates. Generally, the Sprint PCS Affiliates use spectrum owned and controlled by Sprint.

Sprint has amended its existing agreements with a majority of the Sprint PCS Affiliates to provide for a simplified pricing mechanism, as well as refining and changing various business processes. The amended agreements cover approximately 80% of the subscribers served by all Sprint PCS Affiliates. The agreements provide simplified and predictable long-term pricing for fees charged to the Sprint PCS Affiliates for inter-area service. In addition, the agreements settled all significant outstanding disputes with these affiliates.

One Sprint PCS Affiliate, which has not agreed to amend its existing agreement with us, has filed suit against us. This same affiliate and some other Sprint PCS Affiliates are disputing and refusing to pay amounts owed to Sprint. Reserves have been established that are expected to provide for the ultimate resolution of these disputes. Wireless may incur additional expenses to ensure that service is available to its subscribers in the areas served by the Sprint PCS Affiliates. If any of the Sprint PCS Affiliates cease operations, Wireless may incur roaming charges in areas where service was previously provided by the Sprint PCS Affiliates and costs to meet FCC buildout and renewal requirements, as well as experience lower revenues.

Sprint is subject to exclusivity provisions and other restrictions under its arrangements with the Sprint PCS Affiliates. Once the proposed merger is completed, continued compliance with those restrictions may limit the ability to fully integrate the operations of Sprint and Nextel in areas managed by the Sprint PCS Affiliates, and Sprint or Sprint Nextel could incur significant costs to resolve issues related to the proposed merger under these arrangements. We are currently working with Sprint PCS Affiliates to modify our arrangements with them such that the proposed merger of Sprint and Nextel will be mutually beneficial.

Wireless also provides wireless services to companies that resell wireless services to their customers on a retail basis under their own brand using the Sprint Nationwide PCS Network. These companies bear the costs of acquisition, billing and customer service. In 2002, Virgin Mobile USA, LLC, a joint venture between Sprint and the Virgin Group, launched services targeting youth and pre-pay segments. Sprint also has a multi-year, exclusive wholesale agreement with Qwest Communications (Qwest) whereby Qwest wireless subscribers use Sprint's national PCS network and have access to Sprint PCS Vision data services. Qwest began adding new subscribers under this agreement in the 2004 first quarter. In the 2004 second quarter, existing Qwest subscribers began transitioning to Sprint's Nationwide PCS Network and this transition is expected to be substantively complete by the 2005 first quarter.

The wireless industry typically generates a higher number of subscriber additions and handset sales in the fourth quarter of each year compared to the other quarters. This is due to the use of retail distribution, which is impacted by the holiday shopping season; the timing of new products and service introductions; and aggressive marketing and sales promotions.

	2004	2003	2002
	(millions)		
Net operating revenues			
Service	\$ 12,529	\$ 11,217	\$ 10,646
Equipment	1,510	1,143	1,213
Wholesale, affiliate and other	608	330	215
Total net operating revenues	14,647	12,690	12,074
Operating expenses			
Costs of services and products	7,096	6,155	5,783
Selling, general and administrative	3,406	3,085	3,381
Depreciation and amortization	2,563	2,454	2,245
Restructuring and asset impairment	30	362	138
Total operating expenses	13,095	12,056	11,547
Operating income	\$ 1,552	\$ 634	\$ 527
Capital expenditures	\$ 2,559	\$ 2,123	\$ 2,640

In 2004, Wireless reported a 15% increase in net operating revenues, a \$918 million improvement in operating income, and a 12% increase in direct subscribers.

In 2005, Sprint expects to continue to grow its wireless subscriber base by enhancing the subscriber experience through simplified offerings, improved accessibility, enhanced network clarity, and quality subscriber care. Competitive pressure on price is expected to continue, but is expected to be partially offset by increased revenues from services that subscribers can elect to add to their base plan, including Sprint PCS Vision services.

Sprint is a leader in wireless data, with more than 40% of the direct Wireless base subscribing to data services. We continue to evaluate next generation wireless high speed data network options to ensure we maintain a leadership position, as well as to support our integration strategies.

Net Operating Revenues

	2004	2003	2002
Direct Subscribers at year-end (millions)	17.8	15.9	14.8
Average monthly service revenue per user (ARPU)	\$ 62	\$ 61	\$ 62

Wireless had 1.9 million direct net subscriber additions in 2004 including 91,000 subscribers acquired from a Sprint PCS Affiliate. Wireless ended the year with 17.8 million direct subscribers. Wholesale partners added 2.1 million subscribers in 2004, increasing their subscriber base to 3.7 million from 1.6 million in 2003, principally driven by Virgin Mobile USA and Qwest. The Sprint PCS Affiliates added 374,000 subscribers in 2004 ending the period with 3.2 million subscribers. This brings the total number of subscribers served on the Wireless and Sprint PCS Affiliate networks, including direct, Sprint PCS Affiliates and wholesale subscribers, to 24.7 million at 2004 year-end.

The total number of subscribers at year-end 2004 reflects an approximate 90 thousand reduction from the previously disclosed number. This was due to a 67 thousand overstatement of direct subscribers and a 23 thousand overstatement of Sprint PCS Affiliate subscribers. Subscriber counts reflect activated wireless handsets and other devices, excluding those activated for demonstration or testing purposes. As a result of internal analysis, Sprint recently concluded that previously-reported subscriber counts had inadvertently included a limited number of devices used for demonstration or testing purposes, and that this error had occurred over several years. Additional process controls have been established to prevent reoccurrence of this situation and, because the amount of the error is not material to any previously-disclosed information, this error has been corrected by adjusting the number of year-end 2004 subscribers.

Wireless had 1.1 million direct net additions in 2003. Wholesale partners added 1.2 million subscribers in 2003, which increased their subscriber base to 1.6 million from 415,000 at the end of 2002, principally driven by Virgin Mobile USA. The Sprint PCS Affiliates added 297,000 subscribers in 2003 ending the period with 2.9 million subscribers, bringing the total number of subscribers served on the Wireless and Sprint PCS Affiliate networks, including direct, affiliate and wholesale subscribers, to 20.4 million at the end of 2003.

Subscriber churn, which is calculated on our direct subscriber base, is computed by dividing the direct subscribers who discontinued PCS service by the weighted average direct subscribers for the period. This is an operational measure which is used by most wireless companies as a method of estimating the life of the direct subscriber. Analysts and investors primarily use churn to compare relative value across the wireless industry.

In 2004, the subscriber churn rate decreased to 2.6% from 2.7% in 2003. The slight decrease in 2004 was primarily due to improved involuntary churn resulting from improved subscriber payments and collection activity. Subscriber churn rate decreased from 3.3% to 2.7% in 2003. The 2003 improvement was primarily due to a reduction in the involuntary churn rate as Wireless benefited from credit management policies initiated in the 2002 fourth quarter. This improvement was partially offset by a slight increase in voluntary churn due in part to the institution of WLNP in the fourth quarter of 2003.

Average monthly service revenue per user (ARPU), calculated on our direct subscriber base, is computed by dividing direct wireless service revenues by weighted average monthly direct wireless subscribers to measure revenue on a per user basis. This is a measure which uses GAAP as the basis for the calculation. ARPU, which is used by most wireless companies, is a method of valuing recurring subscriber revenue and is used by analysts and investors to compare relative value across the wireless industry.

Net operating revenues include direct wireless service revenues from the direct subscriber base, revenues from sales of handsets and accessory equipment, and revenues from our wholesale partners and Sprint PCS Affiliates. Service revenues consist of monthly recurring charges, usage charges, and miscellaneous fees such as directory assistance, operator-assisted calling, handset insurance and late payment charges. In 2004, Sprint saw increased pricing pressures and lower overage charges from usage-based plans, which were more than offset by an increase in the number of subscribers, increased revenues from data services and subscriber elections to add services to their base plans. Average monthly usage in 2004 was 16 hours compared to 13 hours in 2003. At the end of 2004, 43% of the direct Wireless base was subscribing to data services compared to 35% at the end of 2003.

Service revenues increased 12% in 2004 mainly reflecting an increase in the number of direct subscribers, increased revenue from data services and subscriber elections to add services to their base plans. These increases were partially offset by lower overage charges from usage-based plans. Service revenues increased 5% in 2003 mainly reflecting an increase in the number of subscribers, increased revenues from data services and increased fees. These increases were partially offset by lower overage charges from higher usage service plans.

Revenues from sales of handsets and accessories, including new subscribers and upgrades, were approximately 10.3% of net operating revenues in 2004, 9.0% in 2003, and 10.0% in 2002. The 2004 increase was mainly due to higher subscriber additions and higher retail prices, which were partially offset by higher rebates. The 2003 declines were mainly due to higher rebates and lower gross additions. As part of the Wireless marketing plans, handsets, net of rebates, are usually sold at prices below cost.

Wholesale, affiliate and other service revenues consist primarily of net revenues retained from Wireless subscribers residing in Sprint PCS Affiliate territories, and revenues from the sale of our wireless services by companies that resell those services to their subscribers on a retail basis. These revenues represented 4.2% of net operating revenues in 2004, 2.6% in 2003, and 1.8% in 2002. The 2004 and 2003 increases mainly reflect the net additions from the wholesale and Sprint PCS Affiliate bases.

Cost of Services and Products

Costs of services and products mainly include handset and accessory costs, switch and cell site expenses, customer service costs and other network-related costs. These costs increased 15% in 2004 and 6% in 2003. The increases were primarily due to network support of a larger subscriber base, higher minutes of use, expanded market coverage and increased handset costs. These increases were somewhat offset by decreases in information technology expense. Handset and equipment costs were 39% of total costs of services and products in each of 2004, 2003 and 2002. Costs of services and products were 48.4% of net operating revenue in 2004, 48.5% in 2003, and 47.9% in 2002.

Selling, General and Administrative Expense

Selling, General and Administrative (SG&A) expense mainly includes sales, distribution and marketing costs to promote products and services, as well as salary, benefit and other administrative costs. SG&A expense increased 10% in 2004 compared to a decrease of 9% in 2003. The 2004 increase reflects an increase in sales and distribution costs primarily driven by higher gross additions and an increase in the number of direct retail stores. Marketing costs also contributed to the increase as a significant campaign was launched to reposition the Sprint PCS brand. The 2003 decrease was primarily due to a decline in bad debt expense due to an improved credit class mix, leading to lower write-offs and higher recovery. This decrease was partially offset by increases in other sales and marketing costs due to more competitive market conditions and expanded direct sales presence and the executive separation agreements. SG&A expense was 23.3% of net operating revenues in 2004, 24.3% in 2003, and 28.0% in 2002. The reserve for bad debt requires management's judgement and is based on historical trending, industry norms and recognition of current market indicators about general economic conditions. Bad debt expense as a percentage of net operating revenues was 1.4% in 2004, 2.3% in 2003, and 5.1% in 2002. Reserve for bad debt as a percent of outstanding accounts receivable was 6.8% in 2004, 7.3% in 2003, and 9.4% in 2002. The 2004 improvements mainly reflect sales of previously written-off subscriber receivables and reductions in reserves because number portability churn did not occur as anticipated. The 2003 improvements were mainly driven by credit management policies initiated in the 2002 fourth quarter resulting in lower involuntary churn and improved receivables aging.

Depreciation and Amortization Expense

Estimates and assumptions are used both in setting depreciable lives and testing for recoverability. Assumptions are based on internal studies of use, industry data on lives, recognition of technological advancements and understanding of business strategy. Depreciation expense consists mainly of depreciation of network assets.

Depreciation and amortization expense increased 4% in 2004 and 9% in 2003 mainly reflecting depreciation of the network assets placed in service during 2003 and 2004. Depreciation and amortization expense was 17.5% of net operating revenues in 2004, 19.3% in 2003, and 18.6% in 2002.

Restructuring and Asset Impairment

In 2004, Wireless recorded a \$30 million restructuring charge related to severance costs associated with Sprint's Organizational Realignment.

In 2003, Wireless recorded asset impairments of \$349 million primarily related to the termination of development of a new billing platform. Wireless also recorded restructuring charges of \$13 million for severance costs associated with Sprint's Organizational Realignment, and contractual obligations related to the termination of the development of the billing platform, partially offset by the finalization of all 2001 and 2002 restructuring activities.

In 2002, Wireless recorded restructuring charges of \$96 million related to the consolidations in Sprint's Network, Information Technology, and Billing and Accounts Receivable organizations, as well as other reductions to create a more competitive cost structure by reducing operating expenses. Additionally, Wireless recorded an asset impairment of \$42 million representing abandoned network projects.

For additional information, see Note 7 of Notes to Consolidated Financial Statements.

Local

Local consists mainly of regulated incumbent local phone companies serving approximately 7.7 million access lines in 18 states. Local provides local voice and data services, including digital subscriber line (DSL), for

customers within its franchise territories, access by phone customers and other carriers to the local network, nationwide long distance services to customers located in its franchise territories, sales of telecommunications equipment, and other services within specified calling areas to residential and business customers. Local provides wireless and video services to customers in its franchise territories through agency relationships.

	2004	2003	2002
	(millions)		
Net operating revenues			
Voice	\$4,498	\$4,654	\$4,804
Data	833	730	639
Other	690	746	801
Total net operating revenues	6,021	6,130	6,244
Operating expenses			
Costs of services and products	1,877	1,943	1,942
Selling, general and administrative	1,254	1,220	1,278
Depreciation and amortization	1,084	1,081	1,153
Restructuring and asset impairments	40	24	56
Total operating expenses	4,255	4,268	4,429
Operating income	\$1,766	\$1,862	\$1,815
Operating margin	29.3%	30.4%	29.1%
Capital expenditures	\$1,042	\$1,226	\$1,283

In 2004, Local produced strong growth in broadband data customers through its DSL offerings. This in turn drove strong growth of data revenues. In 2004, Local continued to be impacted by developing competition and product substitution resulting in a decline in access lines and switched access minutes of use. In 2004, Local recorded a \$40 million restructuring charge representing severance costs associated with Sprint's Organizational Realignment. Local expects a small revenue decline in 2005. Increases in data revenue driven by DSL growth are expected to be offset by revenue decreases driven by continuing declines in access lines.

Net Operating Revenues

Net operating revenues decreased 2% in both 2004 and 2003. The decrease in both years was due to lower voice revenue and declines in equipment sales somewhat offset by growth in data revenue. Local ended 2004 with 7.7 million switched access lines, a decrease of 2.9% from the prior year. Access lines decreased 2.2% in 2003. The decreases in 2004 and 2003 were principally driven by wireless substitution and losses to competitive local providers. The reduction in access lines is expected to continue although Sprint expects its ongoing rate of line loss to be less than the loss rates experienced by major urban carriers.

Voice Revenues

Voice revenues, consisting of revenue from local exchange services, long distance revenue and switched access revenue, decreased 3% in both 2004 and 2003 due to the decrease in access lines. Additionally, FCC-allowable cost recoveries associated with local number portability and recoveries for the cost of pooling telephone numbers among carriers ceased in 2004. These declines were partially offset by the wireless number portability recovery that began in 2004. The 2003 decline was also impacted by lower long distance minutes of use partially offset by the demand for network based services driven by increases in bundled offerings.

Data Revenues

Data revenues are mainly derived from DSL, local data transport services, and special access. Data revenues increased 14% in both 2004 and 2003 mainly as a result of strong growth in DSL services. Local ended 2004 with 492,000 DSL lines in service, an increase of 62% compared to year-end 2003. DSL lines in service more than doubled in 2003.

Other Revenues

Other revenues decreased 8% in 2004 and 7% in 2003. These decreases were driven by a decline in equipment sales of 34% in 2004 and 10% in 2003. The decreases in equipment sales were a result of both a planned shift in focus to selling higher margin products and a reduction in customer demand for equipment.

Costs of Services and Products

Costs of services and products include costs to operate and maintain the local network and costs of equipment sales. These costs decreased 3% in 2004 and were flat in 2003. In 2004, general expense controls and lower costs associated with equipment sales were partially offset by higher pension costs and \$30 million of hurricane-related expenses. In 2003, general expense controls and lower costs associated with long distance revenues were offset by higher pension costs. Costs of services and products were 31.2% of net operating revenues in 2004, 31.7% in 2003, and 31.1% in 2002.

Selling, General and Administrative Expense

SG&A expense increased 3% in 2004 and decreased 5% in 2003. The 2004 increase was primarily driven by higher pension costs and stock-based compensation, somewhat offset by general cost controls. The 2003 decrease was driven by general cost controls and lower bad debt expense partially offset by the executive separation agreements and higher pension costs. The reserve for bad debt requires management's judgement and is based on historical trending, industry norms and recognition of current market indicators about general economic conditions. Bad debt expense as a percentage of net revenues was 1.4% in 2004, 0.9% in 2003, and 2.6% in 2002. Reserve for bad debt expense as a percent of outstanding accounts receivable was 9.4% in 2004, 8.5% in 2003, and 13.9% in 2002. In 2003, Local experienced continued improvement in its bad debt experience with end user customers as well as recoveries from previously written off accounts, principally MCI.

SG&A expense was 20.8% of net operating revenues in 2004, 19.9% in 2003, and 20.5% in 2002.

Depreciation and Amortization Expense

Estimates and assumptions are used both in setting depreciable lives and testing for recoverability. Assumptions are based on internal studies of use, industry data on lives, recognition of technological advancements and understanding of business strategy. Depreciation and amortization expense was flat in 2004 and decreased 6% in 2003. The 2003 decrease was driven by the implementation of SFAS No. 143, *Accounting for Asset Retirement Obligations*, which eliminated the accrual for removal cost from the depreciable rate, as well as declines in circuit switching depreciation rates due to a revised schedule for converting from a digital to a packet network. For further information on the implementation of SFAS No. 143, see Note 6 of Notes to Consolidated Financial Statements. Depreciation and amortization expense was 18.0% of net operating revenues in 2004, 17.6% in 2003, and 18.5% in 2002.

Restructuring and Asset Impairment

In 2004, Local recorded a \$40 million restructuring charge related to severance costs associated with Sprint's Organizational Realignment.

In 2003, Local recorded restructuring charges of \$24 million related to severance costs associated with Sprint's Organizational Realignment, offset by the finalization of all 2001 and 2002 restructuring liabilities.

In 2002, Local recorded restructuring charges of \$56 million primarily related to the consolidations in Sprint's Network, Information Technology, and Billing and Accounts Receivable organizations, as well as additional steps to reduce overall operating costs.

For additional information, see Note 7 of Notes to Consolidated Financial Statements.

Long distance

Long distance provides a broad suite of communications services targeted to domestic business and residential customers, multinational corporations and other communications companies. These services include domestic and international voice, data communications using various protocols such as IP and frame relay and managed network services. Long distance is selling into the cable telephony market through arrangements with cable companies that resell Sprint long distance service and/or use Sprint back office systems and network assets in support of their local telephone service provided over cable facilities.

Sprint determined that business conditions and events occurring in 2004 and impacting its Long distance operations constituted a "triggering event" requiring an evaluation of the recoverability of the Long distance long-lived assets pursuant to SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Sprint reevaluated its strategy and financial forecasts in the 2004 third quarter resulting in a \$3.52 billion pre-tax non-cash impairment charge of the Long distance long-lived assets. For additional information see Note 7 of Notes to Consolidated Financial Statements.

	2004	2003	2002
	(millions)		
Net operating revenues			
Voice	\$ 4,560	\$ 4,999	\$5,774
Data	1,722	1,853	1,854
Internet	793	973	1,009
Other	252	180	319
Total net operating revenues	7,327	8,005	8,956
Operating expenses			
Costs of services and products	4,324	4,252	5,018
Selling, general and administrative	1,860	2,199	2,468
Depreciation and amortization	1,071	1,432	1,483
Restructuring and asset impairments	3,661	1,564	194
Total operating expenses	10,916	9,447	9,163
Operating loss	\$ (3,589)	\$ (1,442)	\$ (207)
Capital expenditures	\$ 282	\$ 339	\$ 736

Long distance continued to face significant challenges in 2004. The 8% decline in net operating revenues was primarily driven by a decline in voice revenues. This, along with the pre-tax, noncash Long distance network asset impairment charge of \$3.52 billion, resulted in an operating loss for the year. Throughout 2004, Long distance focused on providing solutions, driving network convergence and targeting growth opportunities. In 2004, Long distance achieved a double-digit reduction in selling, general and administrative expenses with a minimal increase in costs of services and products. In 2004, Sprint undertook initiatives to expand its offering through cable network operators.

Sprint expects revenues to decline in 2005 as Long distance continues to be impacted by intense competitive pressures. These declines are expected to be partially offset by growing contributions from wholesale business. In addition, Sprint expects our transformation to a customer-centric organization to allow us to realize our competitive differentiation, and further increase our customers' loyalty.

Net Operating Revenues

Net operating revenues decreased 8% in 2004 and 11% in 2003. Continuing pricing pressure, termination of a large Dial IP contract and the sale of our Dial IP business were the primary reasons for the revenue decrease in 2004. Loss of a major wholesale customer and a large prepaid customer drove a minute volume decline of 3% in 2003.

Voice Revenues

Voice revenues decreased 9% in 2004 and 13% in 2003. The decreases are the result of a decline in consumer voice revenue resulting from wireless, e-mail and instant messaging substitution, aggressive competition from RBOCs for consumer and small business customers and lower business voice pricing. Results in 2003 were also impacted by the loss of a single major wholesale customer. Voice revenues generated from the provision of services to Wireless and Local represented 13% of total voice revenues in 2004 compared to 12% in 2003.

Data Revenues

Data revenues reflect sales of current-generation data services including asynchronous transfer mode (ATM), managed network services, private line, and frame relay services. Data revenues decreased 7% in 2004 after being flat in 2003. In 2004, the decrease in frame relay and private line services was partially offset by an increase in ATM and managed network services. In 2003, increases in frame relay were offset by a decline in both ATM and private line.

Internet Revenues

Internet revenues decreased 19% in 2004 and 4% in 2003. The decline in 2004 was the result of a decrease in Dial IP and Web Hosting services, partially offset by an increase in dedicated IP. In the 2004 third quarter, a large Dial IP contract expired. In October 2004, Sprint completed the sale of its wholesale Dial IP business for \$34 million. These assets were classified as held for sale on September 30, 2004, and an associated pre-tax non-cash charge of \$21 million was included in the 2004 third quarter impairment charge. The 2003 decrease was primarily the result of a decline in Dial IP due to the final contractually-scheduled repricing of the America Online, Inc., Dial IP agreement, partially offset by revenues from a fourth quarter partial buyout of a portion of a Dial IP contract. While Sprint made the decision to exit the Web Hosting business, the 2003 period reflects Web Hosting revenue in the 2003 first and second quarters.

Other Revenues

Other revenues increased 40% in 2004 after decreasing 44% in 2003. The 2004 increase was primarily due to higher equipment sales. The 2003 decrease was primarily due to the sale of our consulting services business, Paranet, in the third quarter of 2002 and declines in miscellaneous equipment sales.

Costs of Services and Products

Costs of services and products include interconnection costs paid to local phone companies, other domestic service providers and foreign phone companies to complete calls made by Long distance's domestic customers, costs to operate and maintain the long distance networks, and costs of equipment. Costs of services and products increased 2% in 2004 and decreased 15% in 2003. The 2004 increase was primarily attributable to higher call volumes somewhat offset by renegotiated access rate agreements and initiatives to reduce access unit costs. The 2003 decrease was due to volume declines, an improving product mix, initiatives to reduce access unit costs, favorable carrier access settlements and FCC-mandated access rate reductions.

Total costs of services and products for Long distance were 59.0% of net operating revenues in 2004, 53.1% in 2003, and 56.0% in 2002.

Selling, General and Administrative Expense

SG&A expense decreased 15% in 2004 and 11% in 2003. The 2004 decline was due to restructuring efforts and general cost controls. The 2003 decline was due to reduced bad debt expense including the MCI accounts receivable settlement, restructuring efforts, and general cost controls partially offset by the costs of the executive separation agreements recorded in the second quarter of 2003.

SG&A includes charges for estimated bad debt expense. The reserve for bad debts requires management's judgement and is based on customer specific indicators, as well as historical trending, industry norms and recognition of current market indicators about general economic conditions. Bad debt expense as a percentage of net revenues was 2.0% in 2004, 1.4% in 2003, and 3.5% in 2002. Reserve for bad debt as a percentage of outstanding accounts receivable was 12.3% in 2004, 11.1% in 2003, and 14.9% in 2002.

Total SG&A expense for Long distance was 25.4% of net operating revenues in 2004, 27.5% in 2003, and 27.6% in 2002.

Depreciation and Amortization Expense

Estimates and assumptions are used both in setting depreciable lives and testing for recoverability. Assumptions are based on internal studies of use, industry data on lives, recognition of technological advancements and understanding of business strategy. Depreciation and amortization expense decreased 25% in 2004 and 3% in 2003. The 2004 decrease was primarily driven by the impairment of Long distance's property, plant and equipment, as well as a decreased asset base due to the wind-down of the Web Hosting business in 2003. Additionally, in 2004, Sprint extended the depreciable life of certain high-capacity transmission equipment from eight years to twelve years due to slower anticipated evolution of technology. This extension in life decreased the 2004 year-to-date depreciation expense in Long distance by approximately \$74 million. The 2003 decrease was due to asset impairments associated with the wind-down of the Web Hosting business and lower capital spending. Depreciation and amortization expense was 14.6% of net operating revenues in 2004, 17.9% in 2003, and 16.6% in 2002.

In 2005, Long distance expects depreciation and amortization expense to decline by approximately \$600 million due to the 2004 impairment of its asset base.

Restructuring and Asset Impairments

In 2004, Long distance recorded asset impairments of \$3.54 billion related to its property, plant and equipment. Long distance also recorded charges of \$121 million related to severance costs and termination of facility leases associated with Sprint's transformation initiatives and Web Hosting wind-down.

In 2003, Long distance recorded asset impairments of \$1.2 billion related to a decline in the fair value of its BRS spectrum. The decision to wind down the Web Hosting business resulted in a \$316 million asset impairment charge, and associated restructuring charges of \$60 million related to severance and facility lease terminations. Long distance also recorded restructuring charges related to Sprint's Organizational Realignment which were more than offset by the finalization of all 2002 and 2001 restructuring liabilities.

In 2002, Long distance recorded asset impairments of \$156 million primarily related to the termination of high speed data services. Long distance also recorded restructuring charges of \$117 million related to the termination of high speed data services, consolidations in Sprint's Network, Information Technology, and Billing and Accounts Receivable organizations, and additional steps to reduce operating costs. These charges were partially offset by a \$79 million adjustment to finalize certain 2001 restructuring liabilities.

For additional information, see Note 7 of Notes to Financial Statements.

Other

Other businesses consist primarily of wholesale sales of telecommunications equipment. Net operating revenues were \$850 million in 2004, \$840 million in 2003, and \$863 million in 2002. Non-affiliated revenues, which accounted for 40% of revenues in 2004, increased 18% due to increases in capital spending in the telecommunications industry. Operating expenses were flat in 2004 and decreased 2% in 2003. Operating loss was \$21 million, \$31 million and \$24 million in 2004, 2003 and 2002, respectively. In 2005, Sprint plans to continue to leverage its web-enabled capabilities to improve revenues and expand value-added services.

Nonoperating Items

Interest Expense

The effective interest rates in the following table reflect interest expense on long-term debt only. Interest costs on short-term borrowings and interest costs on deferred compensation plans have been excluded so as not to distort the effective interest rates on long-term debt. See "Liquidity and Capital Resources" for more information on Sprint's financing activities.

	2004	2003	2002
Effective interest rate on long-term debt	6.9%	7.0%	6.9%

The effective interest rate includes the effect of interest rate swap agreements. See Note 5 of Notes to Consolidated Financial Statements for more details regarding interest rate swaps. Sprint's effective interest rate on long-term debt decreased in 2004 primarily due to fair value interest rate swaps on \$1 billion of long-term debt that were entered into during the third quarter of 2003. At December 31, 2004, the average floating rate of interest on the swapped debt was 5.0%, while the weighted average coupon on the underlying debt was 7.2%. The effective interest rate increased in 2003 due to the retirement of fixed-rate debt with lower interest rates.

Discount (Premium) on Early Retirement of Debt

Sprint recorded premiums of \$60 million and \$21 million due to the early retirement of debt in 2004 and 2003. Sprint recorded a discount of \$4 million due to the early retirement of debt in 2002. See Note 9 of Notes to Consolidated Financial Statements for more information.

Other Income (Expense), Net

Other income (expense), net consisted of the following:

	2004	2003	2002
		(millions)	
Dividend and interest income	\$ 59	\$ 51	\$ 31
Equity in net losses of affiliates	(39)	(77)	(117)
Amortization of debt costs	(34)	(35)	(36)
Royalties	15	13	9
Litigation settlement	—	(15)	—
Tracking stock recombination advisory fees	(15)	—	—
Other, net	22	(26)	(152)
Total	\$ 8	\$ (89)	\$ (265)

Dividend and interest income for all years reflects dividends received from Sprint's investments in equity securities and interest earned on marketable debt securities.

Equity in net losses of affiliates in 2004 and 2003 was primarily driven by Sprint's investment in Virgin Mobile USA. The lower Equity in losses of affiliates in 2004 was mainly because Sprint had a reduced requirement to recognize Virgin Mobile USA losses using equity method accounting. In 2002, equity in net losses of affiliates was driven by Sprint's investments in Virgin Mobile USA, Pegaso, and Call-Net. Sprint made an additional investment of \$16 million in Call-Net in the 2002 second quarter and immediately recognized an equal amount of losses associated with the investment. Sprint's investment in Pegaso was sold in 2002. See Note 4 of Notes to Consolidated Financial Statements for more information on Sprint's investments.

Royalties reflect payments made to Sprint by Call-Net equaling 2.5% of Call-Net gross revenues from telecommunication services.

In the 2003 first quarter, Sprint recorded a \$50 million net charge to settle shareholder litigation. This charge was offset by \$35 million from insurance settlements related to this action.

In the 2004 first quarter, Sprint recorded \$15 million in advisory fees relating to the tracking stock recombination.

Gains on sales of other assets in 2002 were driven by the sale of Sprint's investment in Pegaso, certain customer contracts and stock received during a company's demutualization.

Income Taxes

Sprint's consolidated effective tax rates were 36.9% in 2004, 42.1% in 2003, and (12.5)% in 2002. See Note 15 of Notes to Consolidated Financial Statements for information about the differences that caused the effective income tax rates to vary from the statutory federal rate for income taxes related to continuing operations.

Discontinued Operations, Net

In 2002, Sprint reached a definitive agreement to sell its directory publishing business to R.H. Donnelley for \$2.23 billion in cash. The sale closed on January 3, 2003. The pretax gain recognized in 2003 was \$2.14 billion and \$1.32 billion after tax.

Financial Condition

Sprint's consolidated assets of \$41.3 billion reflect a decrease of \$1.4 billion in 2004. Cash and equivalents increased \$2.1 billion as cash provided by operations and proceeds from the equity unit forward purchase contracts exceeded capital expenditures, debt payments and dividend payments. Accounts receivable, net, increased \$231 million due to a higher Wireless subscriber base. The current deferred tax asset increased by \$1.0 billion to reflect the expected utilization of NOL carryforwards in 2005. Net property, plant and equipment decreased \$4.5 billion due to the \$3.5 billion long distance network asset impairment, as well as depreciation expense that exceeded capital expenditures by \$733 million. Other non-current assets decreased by \$266 million primarily due to decreases in investments in debt and equity securities and Sprint's investment in Virgin Mobile USA.

The Sprint debt-to-total-capital ratio was 55.5% at year-end 2004 versus 58.9% at year-end 2003. This improvement at year-end 2004 primarily reflects the conversion of the equity unit notes and additional debt reductions, partially offset by the 2004 net loss and increased dividends.

Liquidity and Capital Resources

Sprint exercises discretion regarding the liquidity and capital resource needs of its business segments. This includes the ability to prioritize the use of capital and debt capacity, to determine cash management policies and to make decisions regarding the timing and amount of capital expenditures.

Operating Activities

Sprint's operating cash flows increased \$110 million in 2004 and \$337 million in 2003. The 2004 growth was driven by higher Wireless revenues, various company-wide cost containment initiatives and lower interest costs somewhat offset by declining wireline revenues and higher consolidated working capital requirements. The 2003 increase was mainly due to growth in Wireless, partially offset by higher working capital requirements.

Investing Activities

Sprint's cash flows used by investing activities totaled \$3.8 billion in 2004 compared to \$4.0 billion in 2003 and \$4.6 billion in 2002. Capital expenditures account for the majority of Sprint's investing activities. Wireless capital expenditures were incurred mainly to maintain and enhance network reliability and upgrade capabilities for providing new products and services including EV-DO. Local incurred capital expenditures to accommodate voice-grade equivalent growth, expand capabilities for providing enhanced services, convert our network from circuit to packet switching, continue the build-out of high-speed DSL services, meet regulatory requirements, and replace network and support assets. Long distance capital expenditures were incurred mainly to maintain network reliability and upgrade capabilities for providing new products and services. The overall increase in capital expenditures in 2004 was driven by higher Wireless spending, somewhat offset by Local and Long distance spending reductions. The overall decline in capital expenditures in 2003 was driven by spending reductions across all divisions.

Investing activities also include contributions of \$20 million and \$32 million to Virgin Mobile USA in 2004 and 2003, respectively, and proceeds of \$116 million due to sales and dissolutions of investments in 2002. See Note 4 of Notes to Consolidated Financial Statements for more information on investments.

Other investing activities include proceeds from sales of other assets totaling \$77 million in 2004, \$101 million in 2003, and \$138 million in 2002. In 2004, these proceeds were from the sale of Dial IP assets, EarthLink shares and certain network and administrative assets. In 2003, proceeds were from the sale of EarthLink shares and certain network and administrative assets. In 2002, proceeds were from the sale of certain customer contracts, investment securities and other administrative assets.

In 2004, Sprint acquired a portion of Horizon Cellular's subscriber base for \$35 million. The majority of this purchase is classified as an intangible asset, amortized over a three-year period, and reflected as "Other, net" under investing activities in the Consolidated Statement of Cash Flows.

Financing Activities

Sprint's cash flows used by financing activities totaled \$680 million in 2004, \$3.3 billion in 2003 and \$1.0 billion in 2002. In 2004, financing activities included \$1.9 billion of proceeds from the issuance of common stock mainly from the settlement of equity unit forward purchase contracts. Financing activities also included a \$1.9 billion reduction in debt in 2004 compared with a net reduction of \$2.9 billion in 2003 and \$642 million in 2002. The debt reduction in 2004 was due to the prepayment of senior notes and a portion of the equity unit notes, as well as payment of scheduled maturities of senior notes. The debt reduction in 2003 was due to the tender for the 2003 and 2004 senior notes, the prepayment of borrowings under the Long distance accounts receivable securitization facility and the payment of scheduled maturities of senior notes. Sprint paid cash dividends of \$670 million in 2004, \$457 million in 2003 and \$454 million in 2002. The 2004 dividend increase compared to 2003 and 2002 was due primarily to additional shares of FON common stock resulting from the conversion of PCS common stock in the April tracking stock recombination.

Capital Requirements

Sprint's 2005 investing activities, mainly consisting of capital expenditures, are expected to total approximately \$4.0 to \$4.2 billion. These expenditures are targeted primarily towards increased network capacity and coverage. They are expected to also include investments for growth in demand for enterprise services, broadband initiatives in Wireless and Local and the phased transition from circuit to packet switching in Local. Sprint continues to review capital expenditure requirements closely and will adjust spending and capital investment in concert with customer demand. Dividend payments are expected to approximate \$750 million in 2005.

Liquidity

In the past, Sprint has used the long-term bond market as well as other financial markets to fund its needs. As a result of its improved liquidity position, Sprint has not recently accessed the capital markets and does not currently expect to do so in 2005 to fund either capital expenditures or operating requirements.

In June 2004, Sprint entered into a new revolving credit facility with a syndicate of banks. The \$1.0 billion facility is unsecured, with no springing liens, and is structured as a 364-day credit line with a subsequent one-year, \$1.0 billion term-out option. Sprint does not intend to draw against this facility. Sprint had letters of credit serving as a backup to various obligations of approximately \$123 million at year-end 2004.

Sprint has a Wireless accounts receivable asset securitization facility that provides Sprint with up to \$500 million of additional liquidity. The facility, which expires in June 2005, does not include any ratings triggers that would allow the lenders involved to terminate the facility in the event of a credit rating downgrade. The maximum amount of funding available is based on numerous factors and fluctuates each month. Sprint has not drawn against the facility and slightly more than \$332 million was available as of year-end 2004.

Sprint also has a Long distance accounts receivable asset securitization facility that provides Sprint with up to \$700 million of additional liquidity. The facility, which expires in August 2005, does not include any ratings triggers that would allow the lenders involved to terminate the facility in the event of a credit rating downgrade. The maximum amount of funding available is based on numerous factors and fluctuates each month. In February 2003, Sprint prepaid all outstanding borrowings under this facility. As of December 31, 2004, Sprint had more than \$380 million total funding available under the facility.

The undrawn loan facilities described above have interest rates equal to LIBOR or Prime Rate plus a spread that varies depending on Sprint's credit ratings.

Debt maturities, including capital lease obligations, during 2005 total \$1.3 billion. Sprint's \$4.6 billion cash balance at December 31, 2004, and expected 2005 cash flow from operations should be more than adequate to fund these requirements.

Any borrowings Sprint may incur are ultimately limited by certain debt covenants. At December 31, 2004, Sprint's most restrictive debt covenant would allow an additional \$10.7 billion of debt. Sprint is currently in compliance with all debt covenants associated with its borrowings.

In May 2004, Sprint repurchased \$750 million of senior notes related to the equity units. Sprint repurchased \$516 million of its senior notes in August 2004 and another \$95 million of senior notes in November 2004.

Sprint completed its tender offers to repurchase senior notes in March 2003 in the amount of \$1.1 billion and repaid, before scheduled maturities, \$118 million of debt primarily consisting of Local's first mortgage bonds in the 2003 third quarter. In September 2003, Sprint repaid the \$300 million Export Development Canada loan. Sprint continually evaluates various factors and, as a result, may repurchase additional debt in the future.

In January 2003, Sprint closed on the \$2.23 billion cash sale of its directory publishing business to R.H. Donnelley.

Fitch Ratings (Fitch) currently rates Sprint's long-term senior unsecured debt at BBB. On December 15, 2004, Fitch placed Sprint's rating on Rating Watch Positive. Standard and Poor's Corporate Ratings currently rates Sprint's long-term senior unsecured debt at BBB-. On October 8, 2004, Standard and Poor's placed Sprint's rating on CreditWatch with positive implications. Moody's Investors Service currently rates Sprint's long-term senior unsecured debt at Baa3 and on December 15, 2004, changed the outlook to Developing.

Sprint's ability to fund its capital needs is ultimately impacted by the overall capacity and terms of the bank, term-debt and equity markets. Given the volatility in the markets, Sprint continues to monitor the markets closely and to take steps to maintain financial flexibility and a reasonable capital structure cost. Sprint currently plans to access the markets only for extension, replacement or renewal of current credit arrangements.

As of December 31, 2004, Sprint's contractual obligations are summarized below and are fully disclosed in Notes 1, 8, 9, 10, 11, and 17 of Notes to Consolidated Financial Statements.

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Notes, bonds, debentures and other debt instruments	\$ 16,989	\$ 1,204	\$ 3,264	\$ 1,954	\$ 10,567
Capital lease obligations	215	84	119	12	—
Estimated future interest payments	14,601	1,175	2,094	1,780	9,552
Redeemable preferred stock	247	—	—	247	—
Estimated dividends on redeemable preferred stock	26	5	15	6	—
Operating leases	11,171	808	1,367	1,169	7,827
Unconditional purchase obligations	1,413	1,220	174	7	12
Total contractual obligations	\$44,662	\$4,496	\$7,033	\$5,175	\$27,958

Unconditional Purchase Obligations

Sprint has minimum purchase commitments with various vendors through 2009. Outstanding commitments at year-end 2004 were approximately \$1.4 billion. The outstanding commitments represent non-cancelable commitments to purchase goods and services, and consist primarily of network equipment and maintenance, access commitments, advertising and marketing, information technology services and customer support provided by third parties, handset purchases and other expenses related to normal business operations.

Expected pension contributions are disclosed in Note 14 of Notes to Consolidated Financial Statements and have not been included in unconditional purchase obligations.

Off-Balance Sheet Financing

Sprint does not participate in, or secure, financings for any unconsolidated, special purpose entities. Sprint does have bankruptcy-remote entities which are included in Sprint's Consolidated Financial Statements.

Regulatory Developments

See Legislative and Regulatory Developments in Part I of this filing.

Financial Strategies

General Risk Management Policies

Sprint selectively enters into interest rate swap agreements to manage its exposure to interest rate changes on its debt. Sprint also enters into forward contracts and options in foreign currencies to reduce the impact of changes in foreign exchange rates. Sprint seeks to minimize counterparty credit risk through stringent credit approval and review processes, the selection of only the most creditworthy counterparties, continual review and monitoring of all counterparties, and thorough legal review of contracts. Sprint also controls exposure to market risk by regularly monitoring changes in foreign exchange and interest rate positions under normal and stress conditions to ensure they do not exceed established limits.

Sprint's derivative transactions are used principally for hedging purposes. The Board has authorized Sprint to enter into derivative transactions, and all transactions comply with Sprint's risk management policies.

Interest Rate Risk Management

Fair Value Hedges

Sprint enters into interest rate swap agreements to manage exposure to interest rate movements and achieve an optimal mixture of floating and fixed-rate debt while minimizing liquidity risk. The interest rate swap agreements designated as fair value hedges effectively convert Sprint's fixed-rate debt to a floating rate by receiving fixed rate amounts in exchange for floating rate interest payments over the life of the agreement without an exchange of the underlying principal amount. During 2003, Sprint entered into interest rate swap agreements, which were designated as fair value hedges.

Cash Flow Hedges

Sprint enters into interest rate swap agreements designated as cash flow hedges to reduce the impact of interest rate movements on future interest expense by effectively converting a portion of its floating-rate debt to a fixed-rate. As of December 31, 2004, Sprint had no outstanding interest rate cash flow hedges.

Other Derivatives

In certain commercial transactions, Sprint is granted warrants to purchase the securities of other companies at fixed rates. These warrants are supplemental to the terms of the commercial transaction and are not designated as hedging instruments.

During 2002 and 2003, Sprint entered into variable prepaid forward contracts to monetize equity securities held as available for sale. The derivatives have been designated as cash flow hedges to reduce the variability in expected cash flows related to the forecasted sale of the underlying equity securities. In the 2004 fourth quarter certain of the prepaid forward contracts settled. The remaining contracts will settle in 2005.

Foreign Exchange Risk Management

Sprint's foreign exchange risk management program focuses on reducing transaction exposure to optimize consolidated cash flow. Sprint's primary transaction exposure results from payments made to and received from overseas telecommunications companies for completing international calls made by Sprint's domestic customers and from the operation of its international subsidiaries. These international operations were not material to the consolidated financial position, results of operations or cash flows at year-end 2004. Sprint has not entered into any significant foreign currency forward contracts or other derivative instruments to reduce the effects of adverse fluctuations in foreign exchange rates. As a result, Sprint was not subject to material foreign exchange risk.

Recently Issued Accounting Pronouncements

In March 2004, the EITF of the Financial Accounting Standards Board reached a consensus on EITF No. 03-6, *Participating Securities and the Two-Class Method under SFAS No. 128, Earnings Per Share (EITF No. 03-6)*. This guidance requires that the rights of securities to participate in the earnings of an enterprise must be reflected in the reporting of earnings per share. Sprint's equity unit purchase contracts met the "participating security" qualifications outlined in the guidance, because the purchase contracts included a provision permitting the equity unit holders to benefit from or "participate" in any dividends declared on the common stock during the contract period.

Sprint adopted EITF No. 03-6 in the 2004 second quarter. Prior to April 23, 2004, the equity unit forward purchase contracts were tied only to the PCS common stock which had no earnings upon which to declare dividends. Upon recombination and until settlement in August 2004, the equity unit purchase contracts participated in the earnings of FON common stock. The proportionate share of earnings attributable to these securities was \$9 million in the year-to-date period. This attribution was reflected as "Earnings allocated to participating securities" on the face of the Consolidated Statements of Operations. Sprint has no outstanding participating securities at December 31, 2004.

In December 2004, the FASB issued SFAS No. 123R, *Share-Based Payment*. This statement requires an entity to recognize the cost of employee services received in share-based payment transactions, through the use of fair-value-based methods of recognizing cost. This statement is effective for Sprint as of July 1, 2005.

Sprint voluntarily adopted fair value accounting for share-based payments effective January 1, 2003, under SFAS No. 123 as amended by SFAS No. 148, using the prospective method. Upon adoption Sprint began expensing the fair value of stock-based compensation for all grants, modifications or settlements made on or after January 1, 2003. Further, in connection with the tracking stock recombination, as required by SFAS No. 123, Sprint accounted for the conversion of PCS stock options to FON stock options as a modification and accordingly applied stock option expensing to FON stock options resulting from the conversion of PCS stock options granted before January 1, 2003.

The revised standard will require Sprint to begin to recognize compensation cost for unvested FON stock options granted before January 1, 2003, which are outstanding as of July 1, 2005. This requirement to recognize expense on additional unvested grants is not expected to be significant to Sprint.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Sprint is susceptible to certain risks related to changes in interest rates and foreign currency exchange rate fluctuations. The risk inherent in Sprint's market risk sensitive instruments and positions is the potential loss arising from adverse changes in those factors. Sprint does not purchase or hold any derivative financial instruments for trading purposes.

Interest Rate Risk

The communications industry is a capital intensive, technology driven business. Sprint is subject to interest rate risk primarily associated with its borrowings. Sprint selectively enters into interest rate swap and cap agreements to manage its exposure to interest rate changes on its debt.

Approximately 93% of Sprint's debt at December 31, 2004 was fixed-rate debt excluding interest rate swaps. While changes in interest rates impact the fair value of this debt, there is no impact to earnings and cash flows because Sprint intends to hold these obligations to maturity unless market and other conditions are favorable.

As of December 31, 2004, Sprint held fair value interest rate swaps with a notional value of \$1 billion. These swaps were entered into as hedges of the fair value of a portion of our senior notes. These interest rate swaps have maturities ranging from 2008 to 2012. On a semiannual basis, Sprint pays a floating rate of interest equal to the six-month LIBOR plus a fixed spread and receives an average interest rate equal to the coupon rates stated on the underlying senior notes. On December 31, 2004, the rate Sprint would pay averaged 5.0% and the rate Sprint would receive was 7.2%. Assuming a one percentage point increase in the prevailing forward yield curve, the fair value of the interest rate swaps and the underlying senior notes would change by \$46 million. These interest rate swaps met all the requirements for perfect effectiveness under derivative accounting rules as all of the critical terms of the swaps perfectly matched the corresponding terms of the hedged debt; therefore, there is no impact to earnings and cash flows for any fair value fluctuations.

Sprint performs interest rate sensitivity analyses on its variable rate debt including interest rate swaps. These analyses indicate that a one percentage point change in interest rates would have an annual pre-tax impact of \$18 million on the statements of operations and cash flows at December 31, 2004. While Sprint's variable-rate debt may impact earnings and cash flows as interest rates change, it is not subject to changes in fair values.

Sprint also performs a sensitivity analysis on the fair market value of its outstanding debt. A 10% decline in market interest rates would cause a \$579 million increase in fair market value of its debt to \$20.1 billion. This analysis includes the hedged debt.

Foreign Currency Risk

Sprint also enters into forward contracts and options in foreign currencies to reduce the impact of changes in foreign exchange rates. Sprint uses foreign currency derivatives to hedge its foreign currency exposure related to settlement of international telecommunications access charges and the operation of its international subsidiaries. The dollar equivalent of Sprint's net foreign currency payables from international settlements was \$55 million and net foreign currency receivables from international operations was \$26 million at December 31, 2004. The potential immediate pre-tax loss to Sprint that would result from a hypothetical 10% change in foreign currency exchange rates based on these positions would be approximately \$3 million.

Item 8. Financial Statements and Supplementary Data

The information required by Item 8 is incorporated by reference to the section beginning on page F-1.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

There are no reportable events.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in Sprint's reports under the Securities Exchange Act of 1934, such as this Form 10-K/A, is reported in accordance with the SEC's rules. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In connection with the preparation of the Form 10-K and as of December 31, 2004, under the supervision and with the participation of Sprint's management, including Sprint's Chief Executive Officer and Chief Financial Officer, Sprint carried out an evaluation of the effectiveness of the design and operation of Sprint's disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer each concluded that the design and operation of the disclosure controls and procedures were effective as of December 31, 2004 in providing reasonable assurance that information required to be disclosed in reports Sprint files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and in providing reasonable assurance that the information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

No changes were made in Sprint's internal control over financial reporting during the quarter ended December 31, 2004 that have materially affected, or are reasonably likely to materially affect, Sprint's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Sprint's management is responsible for establishing and maintaining adequate internal control over financial reporting. Sprint's internal control system was designed to provide reasonable assurance to Sprint's management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

Sprint's management conducted an assessment of the effectiveness of Sprint's internal control over financial reporting as of December 31, 2004. This assessment was based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Based on this assessment, management believes that, as of December 31, 2004, Sprint's internal control over financial reporting is effective.

Sprint's independent registered public accounting firm has issued an audit report on management's assessment of Sprint's internal control over financial reporting. This report appears on page F-4.

Part III

Item 10. Directors and Executive Officers of the Registrant

Board of Directors

DuBose Ausley, age 67. Attorney, Ausley & McMullen, a law firm, Tallahassee, Florida, where he was Chairman from 1982 to June 1, 2002. He is a director and chairman of the Executive Committee of Capital City Bank Group, Inc. (1982-2003), Tampa Electric Co., Inc., TECO Energy, Inc., and Blue Cross and Blue Shield of Florida, Inc. Mr. Ausley has been a Director of Sprint since 1993 and will not stand for re-election at the annual meeting.

Gordon M. Bethune, age 63. Retired Chairman and Chief Executive Officer of Continental Airlines, Inc., an international commercial airline company, Houston, Texas. He served as Chief Executive Officer of Continental Airlines from 1994 and as Chairman and Chief Executive Officer from 1996 until December 31, 2004. He is a director of Honeywell International Inc., Willis Group Holdings, Limited and Prudential Financial, Inc. He has been a director of Sprint since March 2004.

Dr. E. Linn Draper, Jr., age 63. Retired Chairman of American Electric Power Co. Inc., a public utility holding company, Columbus, Ohio. He has also served as President of Ohio Valley Electric Corporation, an electric utility company, Piketon, Ohio, and its subsidiary, Indiana-Kentucky Electric Corporation, since 1992. He served as Chairman, President and Chief Executive Officer of American Electric Power Co. Inc. and all of its major subsidiaries from 1993 until December 31, 2003 and as Chairman until February 24, 2004. He is a director of Temple-Inland Inc., NorthWestern Corporation, Alliance Data Systems Corporation and Alpha Natural Resources. He has been a director of Sprint since December 2003.

Gary D. Forsee, age 55. Chairman and Chief Executive Officer of Sprint, Overland Park, Kansas. He is a director of Goodyear Tire & Rubber Co. Before becoming the Chief Executive Officer of Sprint in March 2003, Mr. Forsee served as Vice Chairman — Domestic Operations of BellSouth Corporation since January 2002, Chairman of Cingular Wireless since late 2001 and President of BellSouth International since 2000, before which he served as Executive Vice President and Chief Staff Officer beginning in 1999. He has been a director of Sprint since 2003.

James H. Hance, Jr., age 60. Retired Vice Chairman of Bank of America Corporation, a financial services holding company, Charlotte, North Carolina. He served as the Vice Chairman of Bank of America Corporation from 1993 until January 31, 2005 and as the Chief Financial Officer of Bank of America Corporation from 1988 until April 2004. He is a director of Cousins Properties Incorporated, EnPro Industries, Inc. and Rayonier Corporation. He has been a director of Sprint since February 8, 2005.

Deborah A. Henretta, age 43. President of Global Baby/Toddler & Adult Care for Procter & Gamble, a producer of personal and household products, Cincinnati, Ohio, since 2001. Before becoming President of Global Baby/Toddler & Adult Care, she served as Vice President, North America Baby Care since 1999 and General Manager, Global Fabric Conditioners since 1996. She is on the Board of Trustees at St. Bonaventure University and Children's Hospital/Medical Center in Cincinnati, Ohio. She has been a director of Sprint since March 2004.

Irvine O. Hockaday, Jr., age 68. Retired President and Chief Executive Officer of Hallmark Cards, Inc., a manufacturer of greeting cards, Kansas City, Missouri. He is a director of Aquila, Inc., Crown Media Holdings, Inc., Dow Jones, Inc., Ford Motor Company, and Estee Lauder, Inc. Mr. Hockaday served as President and Chief Executive Officer of Hallmark Cards, Inc. from 1985 to 2001. He has been a director of Sprint since 1997, and is Sprint's Lead Independent Director.

Linda Koch Lorimer, age 53. Vice President and Secretary of the University, Yale University, New Haven, Connecticut. She is the Lead Director of McGraw-Hill, Inc., and a director of Yale-New Haven Hospital and a trustee of Hollins University. Before becoming Vice President and Secretary of Yale University in 1993, Ms. Lorimer was President of Randolph-Macon Woman's College for more than six years. She has served as the President of the Board of the American Association of Colleges and Universities and as Vice Chair of The Center for Creative Leadership. She has been a director of Sprint since 1993.

Charles E. Rice, age 69. Chairman of Mayport Venture Partners, LLC, and former Vice Chairman of Corporate Development, Bank of America Corporation, a bank holding company from 1998 to 2001. He is a director of CSX Corporation, Bessemer Trust Company, and Post Properties, Inc. Before becoming Vice Chairman of Corporate Development of Bank of America Corporation, Mr. Rice was Chairman of NationsBank, Inc. from May 1998 to October 1998 and Chairman and Chief Executive Officer of Barnett Banks, Inc. from 1984 to 1998. He has been a Director of Sprint since 1975 and will retire at the Sprint annual meeting.

Louis W. Smith, age 62. Retired President and Chief Executive Officer of the Ewing Marion Kauffman Foundation, Kansas City, Missouri. He is a director of H & R Block, Inc. Before serving as President and Chief Executive Officer of the Ewing Marion Kauffman Foundation from 1997 until April 2002, he was President and Chief Operating Officer of the foundation beginning in 1995. He was President of Allied Signal Inc., Kansas City Division, from 1990 to 1995. He has been a director of Sprint since 1999.

Gerald L. Storch, age 48. Vice Chairman of Target Corporation, a general Merchandise retailer, Minneapolis, Minnesota. Before becoming Vice Chairman of Target In 2001, he was President of Target's Financial Services and New Businesses from 1998 to 2001. He has been a director of Sprint since December 2003.

William H. Swanson, age 56. Chairman and Chief Executive Officer of Raytheon Company, an industry leader in defense and government electronics, space, information technology, technical services, and business and special mission aircraft, Waltham, Massachusetts. Prior to January 2004, he was CEO and president of Raytheon. Prior to that, he was president of Raytheon, responsible for Raytheon's government and defense operations. Mr. Swanson joined Raytheon in 1972 and has held a wide range of leadership positions across a broad spectrum of Raytheon's business units. He has been a director of Sprint since September 2004.

Executive Officers

For information pertaining to Executive Officers of Sprint, as required by Instruction 3 of Paragraph (b) of Item 401 of Regulation S-K, refer to the Executive Officers of the Registrant section of Part I of this document.

The Audit Committee

The board of directors has an Audit Committee. The primary function of the Audit Committee is to advise and assist the board in fulfilling its oversight responsibilities to the investment community, including current and potential stockholders. The Audit Committee's purpose includes assisting board oversight of the integrity of Sprint's financial statements, Sprint's compliance with legal and regulatory requirements, and the performance of Sprint's internal audit function and ethics and compliance function. The Audit Committee also has sole responsibility for the appointment, compensation and oversight of the independent auditors. The committee's principal responsibilities in serving these functions are described in the Audit Committee charter that was adopted by Sprint's board of directors.

Current copies of the Audit Committee charter and Sprint's code of ethics, *The Sprint Principles of Business Conduct*, both of which comply with the Sarbanes-Oxley Act and the New York Stock Exchange (NYSE) corporate governance standards, are available at www.sprint.com/governance. Copies of the Audit Committee charter and *The Sprint Principles of Business Conduct* may also be obtained by writing to Sprint Shareholder Relations, 6200 Sprint Parkway, Mailstop KSOPHF0302-3B206, Overland Park, Kansas 66251.

The Sprint Principles of Business Conduct describes the ethical and legal responsibilities of directors and employees of Sprint and its subsidiaries, including senior financial officers and executive officers. All directors and Sprint employees (including all senior financial officers and executive officers) are required to comply with *The Sprint Principles of Business Conduct*. In support of the ethics code, Sprint has provided employees with a number of avenues for the reporting of potential ethics violations or similar concerns or to seek guidance on ethics matters, including a 24/7 telephone helpline. Concerns about Sprint's accounting, auditing matters or internal controls can be submitted on a confidential and anonymous basis by telephone to the Ethics Helpline at 1-800-788-7844, by mail to the Audit Committee, c/o Sprint Corporation, Mailstop KSOPHF0302-3B679, 6200 Sprint Parkway, Overland Park, Kansas 66251 or by email to auditcommittee@mail.sprint.com. Sprint's Chief Ethics Officer reports regularly to the Audit Committee on the Ethics and Compliance Program.

On April 19, 2005, Sprint's board appointed Mr. Hance to the Audit Committee as Chair of the Audit Committee. Mr. Hance replaces as Chair Mr. Rice, who will be retiring from Sprint's board in connection with the Sprint annual meeting. In addition to Messrs. Hance and Rice, the other members are Ms. Lorimer, Mr. Bethune, Dr. Draper and Mr. Smith. Each of the members is financially literate, independent and able to devote sufficient time to serving on the Audit Committee. The board has determined that Mr. Rice possesses the qualifications of an audit committee financial expert as defined in the Sarbanes-Oxley Act. The independence determination has been made by the board under the NYSE corporate governance standards and the Sarbanes-Oxley Act applicable to Audit Committee members. The Audit Committee met twelve times in 2004.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires Sprint's directors and executive officers to file with the SEC and the NYSE initial reports of ownership and reports of changes in ownership of Sprint common stock and other equity securities of Sprint. Directors and executive officers are required by SEC regulations to furnish Sprint with copies of all Section 16(a) reports they file, and Sprint makes these reports available at www.sprint.com/sprint/irl/secl.

To Sprint's knowledge, based solely on a review of the copies of these reports furnished to Sprint and written representations that no other reports were required, during 2004 all Section 16(a) filing requirements applicable to its directors and executive officers were complied with, except for Sprint's failure to report timely on one Form 4 filed on behalf of Gene M. Betts, Senior Vice President and Treasurer, a disposition of PCS common stock representing shares withheld by Sprint to satisfy Sprint's tax withholding obligation in connection with the vesting of restricted stock units. This failure was inadvertent and, as soon as the oversight was discovered, the form was promptly filed.

Item 11. Executive Compensation

Compensation Committee Report on Executive Compensation

The Compensation Committee, among its various functions contained in the Committee Charter, establishes and/or reviews the salaries and other compensation paid to Sprint's executive officers. The Committee's Charter is reviewed annually by the committee and the board. The board has the responsibility for determining membership of the Compensation Committee and has appointed only independent directors to the committee. The committee has the authority to engage the services of outside advisers, experts and others to assist the committee. The committee consulted with Deloitte Consulting and Watson Wyatt, independent compensation consultants to the committee, in 2004 to design the 2005 executive compensation plan that is described below. The committee is also advised by Davis Polk & Wardwell, independent counsel to the board.

This report summarizes the policies followed in setting compensation for Sprint's executive officers in 2004, as well as changes that will be made to the 2005 compensation program.

Sprint's Executive Compensation Philosophy

The fundamental objectives of Sprint's executive compensation policies are to ensure that executives are provided incentives and compensated in a way that advances both the short- and long-term interests of stockholders while also ensuring that Sprint is able to attract and retain executive management talent.

Sprint approaches this objective through three key components:

- an annual base salary;
- performance-based annual short-term incentive compensation (paid in cash); and
- periodic (generally annual) grants of long-term stock-based compensation, such as stock options and restricted stock units (RSUs).

To develop a competitive compensation package, each of these components of compensation as well as total compensation (the sum of all three elements) are compared to compensation data of similarly sized companies in the telecommunications and high technology industries as well as in other industries based on surveys conducted by independent compensation consultants and proxy data. At the end of 2002, the committee re-examined and revised the compensation structure and set guidelines so that all three compensation components were based on the market median for similar positions within the comparison group. These guidelines are scheduled to be updated in late 2005 based on a review of available compensation data. Based on the most recently available compensation data, these guidelines continue to reflect the market median for annual base salary and short-term incentive compensation and are above the median for long-term incentive compensation. For each executive officer, the actual long-term incentive opportunity granted is adjusted from the guidelines to reflect individual performance. The actual compensation earned by executive officers as a result of their short-term and their long-term incentive compensation opportunities is primarily dependent on Sprint's performance. As a result of all of these factors, the long-term opportunities and total actual compensation for the Named Officers were generally at the 75th percentile level relative to the most recently available data.

The committee believes that Sprint's comparison group, which is reviewed and adjusted if needed on an annual basis, accurately reflects the market in which Sprint competes for executive talent. Six of the 22 companies in the Dow Jones US Telecommunications Index (which is used in the stock performance graphs in this Item 11) are included in the comparison group. In 2005, the two independent compensation consultants reviewed Sprint's comparison group and expressed their views that the group generally accurately reflects the market in which Sprint competes for executive talent. For 2005, the two independent compensation consultants recommended minor revisions to Sprint's comparison group to include two new telecommunication companies and to remove one company that is no longer viewed as a high technology company.

In December 2004, the committee reviewed the total remuneration that the Named Officers potentially could receive, under five termination scenarios: (1) normal retirement, (2) voluntary, (3) involuntary for cause, (4) involuntary not for cause and (5) involuntary not for cause or for good reason after a change in control. The total remuneration review included all aspects of the executive officers' pay including annual base salary plus short-term and long-term incentive compensation, the cash value of future benefits, perquisites, deferred compensation and the potential impact of accelerated vesting of equity. The opinion of the two independent compensation consultants was that Sprint's total remuneration for its Named Officers was within competitive practice. The committee intends to review this total remuneration analysis annually.

Section 162(m) of the Internal Revenue Code of 1986, as amended (Code) denies a tax deduction to any publicly held corporation, such as Sprint, for compensation in excess of \$1 million paid to any individual who, on the last

day of the year, is the CEO or among the four highest compensated officers other than the CEO, whom we refer to as the Named Officers, unless such compensation qualifies as performance-based under Section 162(m). It is Sprint's policy to design its short-term incentive compensation plan for the Named Officers so that such incentive compensation would be deductible under Section 162(m), although individual exceptions may occur. With respect to long-term incentive compensation, compensation from stock options, but not RSUs, is deductible under Section 162(m). The committee believes that the interests of the stockholders are best served by not restricting the committee's discretion in developing compensation programs, even though such programs may result in certain non-deductible compensation expenses.

Compensation Decisions for 2004

Base Salary

As in the past, 2004 base salaries for executive officers took into consideration a variety of factors, including:

- the nature and responsibility of the position and, to the extent available, salary norms for persons in comparable positions at comparable companies (primarily similarly sized companies in the telecommunications and high technology industries);
- the experience and tenure of the individual executive; and
- the performance of the individual executive.

Short-term Incentive Compensation

Sprint's annual short-term incentive compensation plan, or STIC, is designed to motivate and reward eligible employees for their contributions to Sprint's performance by making a large portion of their cash compensation variable and dependent upon Sprint's performance.

In 2004, the STIC formula had three variables all of which are described below: (1) the executive officer's annual incentive target; (2) achievement of six objectives, three for the combined results of the local telecommunications and long distance operations (FON) and three for the wireless operations (PCS division); and (3) weightings for the objectives. At the end of the year, the individual's incentive target was multiplied by the weightings and the payout results for each objective to calculate the actual incentive amount for the year. The payouts for each objective could range from 0 – 200%. For executive officers above Senior Vice President, or SVP, the individual's incentive payout was calculated based only upon Sprint's performance measured by the objectives and weightings described below. The committee (which has the discretion to reduce these executive officers' incentive payments) then reviewed and authorized the actual incentive payouts for these officers. For SVPs, the individual incentive payout was calculated based upon Sprint's performance measured by the objectives and weightings and then adjusted for individual performance (from 0 – 120%). This individual performance factor did not apply to executive officers above SVP.

For executive officers, the following objectives and weightings were used for the 2004 STIC. A brief description of the objective and the result is also shown.

- FON Net Revenue Growth – 15%: the increase or decrease in current year net revenue, over net revenue for the prior year, expressed as a percentage. Actual results were below target.
- FON EVA – 25%: calculated as net operating profits after taxes less a charge for the carrying cost of all capital invested in the enterprise (average invested capital multiplied by weighted average cost of capital (%)). Actual results were below target.
- FON Operating Cash Flow – 10%: calculated as operating income before depreciation and amortization expense less funds used to acquire or upgrade long-term assets such as property, buildings or equipment. Actual results were below target.
- PCS Net Service Revenue Growth Relative to Industry Growth – 15%: the increase or decrease in current period net service revenue (total revenue exclusive of handset sales) over net service revenue for a corresponding period, expressed as a percentage, relative to the change in industry net service revenue growth for the same time period. Actual results were at target.
- PCS EVA – 25%: calculated as net operating profits after taxes less a charge for the carrying cost of all capital invested in an enterprise (average invested capital multiplied by weighted average cost of capital (%)). Actual results exceeded target.
- PCS Operating Cash Flow – 10%: calculated as operating income before depreciation and amortization expense less funds used to acquire or upgrade long-term assets such as property, buildings or equipment. Actual results exceeded target.

Long-term Incentive Compensation

Sprint's long-term incentive compensation plan, or LTIC, is designed to promote the long-term objectives of the organization. The target level of LTIC in 2004 was developed as described above. Actual awards were adjusted based on the performance rating of each eligible participant. The target incentive opportunity was then converted to stock options and RSUs. Stock options were granted with a strike price equal to 100% of fair market value of the underlying stock on the grant date. The stock options vest 25% per year from the date of grant. The RSUs vest 25% two years from the date of grant with the remaining 75% vesting three years from the date of grant.

CEO Compensation

In setting the compensation level for the CEO, Gary D. Forsee, the committee with the guidance of an independent compensation consultant, considers comparative information from other companies, third party salary surveys and proxy statements. In February 2004, the committee determined to maintain Mr. Forsee's base salary at the level established in 2003 of \$1,100,000 and increased Mr. Forsee's STIC target opportunity \$215,000, from \$1,650,000 to \$1,865,000, to continue to tie Mr. Forsee's performance compensation to the performance of Sprint. Due to the strong performance of Sprint in 2004 under Mr. Forsee's leadership, his actual STIC payout for 2004 was \$2,090,991, which represented 112.12% of his STIC target opportunity.

In 2004, taking into account Mr. Forsee's strong individual performance and, after considering the Sprint FON common stock and Sprint PCS common stock recombination, the committee awarded Mr. Forsee the following: (1) 779,400 stock options that become exercisable 25% per year from the date of grant and (2) 396,000 RSUs that vest 25% two years from the grant date with the remaining 75% vesting on the third anniversary of the grant date.

Compensation Decisions for 2005

During 2004, the Compensation Committee, with advice and assistance from two independent compensation consultants, devoted extensive attention to reviewing Sprint's executive compensation design. Through this review, the committee identified the key strategic compensation design priorities for Sprint: ensure stockholder alignment, reward performance, enhance corporate governance, improve employee collaboration and simplify current compensation plans.

The results of the review included the following observations:

- the short-term incentive plan had too many objectives and should be simplified; and
- although aspects of the long-term incentive plan had performance criteria associated with them, additional performance-based criteria were needed.

Beginning in 2005, the following changes have been made to the short- and long-term incentive compensation plans.

Short-term Incentive Compensation

In 2005, STIC has been simplified by reducing the number of objectives and sharing them among all STIC eligible employees (approximately 23,500), creating greater alignment of efforts and interests within and across the organization. All STIC participants have a combination of any of the following objectives: Sprint Economic Value Added, or Sprint EVA; Earnings before Interest, Taxes, Depreciation and Amortization, or EBITDA, Expense to Revenue; and Sprint customer satisfaction. Sprint EVA is calculated as net operating profits after taxes less a charge for the carrying cost of all capital invested in the enterprise (average invested capital multiplied by the weighted average cost of capital (%)). EBITDA is calculated as net income before interest and tax expense (which are non-operating expenses) and depreciation and amortization expense (which are non-cash expenses). Customer satisfaction will be measured by improvement in industry relevant customer satisfaction surveys, conducted through independent third party vendors. Achievement of the 2005 STIC objectives will be calculated with reference to the performance period before the completion of the proposed merger with Nextel if the merger is completed before the end of 2005.

Long-term Incentive Compensation

After reviewing a number of different approaches to delivering LTIC, the committee determined that Sprint will again grant both stock options and RSUs in 2005 but with some substantial changes described below.

Stock Options

The 2005 stock option awards for Sprint's SVPs through the CEO have a strike price equal to 110% of the market value of the underlying stock on the grant date. This approach ensures stockholders benefit from stock appreciation before the senior leadership of Sprint. All other executives receive stock options with a strike price equal to 100% of fair market value on the grant date. The stock option award for all participants will continue to vest 25% per year from the date of grant.

RSUs

Beginning with the 2005 awards, the number of RSUs granted is based on both individual performance and the achievement of enterprise-level financial performance criteria. Financial targets, using Sprint EVA (described above), are set during the first quarter of the measurement year and Sprint's SVPs through the CEO receive contingent awards of RSUs based on the guideline award, adjusted for each executive's individual performance rating. A performance matrix was created to allow for a range of awards under or over targeted levels based on actual results. In 2006, the contingent 2005 RSU award will be adjusted based on actual 2005 Sprint EVA performance results (calculated with reference to performance before the proposed merger with Nextel if the merger is completed before the end of 2005). The 2005 award vests 100% three years from the date of grant. In addition to being granted on a performance basis, RSUs have a retention aspect, vesting only if the executive remains employed by Sprint three years from the grant date, which is two years after the performance period.

For executives below the SVP level, the 2005 RSU target value was adjusted at the time of grant in 2005 based on individual performance and 2004 EVA performance (capped at 100%) and converted to RSUs, in whole shares. The RSUs vest 100% three years from the date of grant.

Other Actions in 2005

In January 2005, the committee, with the advice of independent outside counsel and an independent compensation consultant, approved a retention program to retain Sprint executives through the completion of the proposed merger with Nextel and the contemplated spin-off of the local telecommunications business and for the one-year transition period after the applicable transaction. Messrs. Forsee and Lauer were excluded from participating in the program. The program provides for up to 100% of the executive officers' annual base salary and short-term incentive target opportunity and acceleration of unvested equity if held at least one year upon the date of the executive's involuntary, not for cause termination.

In February 2005, the committee approved the promotion of Len Lauer in recognition of his added responsibilities for the Information Technology Services and Network Services organizations, effective January 1, 2005. Based on Mr. Lauer's 2004 performance and his promotion in 2005, his compensation components are \$933,000 base salary, \$1,120,000 short-term incentive compensation opportunity and 420,000 stock options and 160,000 RSUs.

Amendments to Sprint's aircraft usage policy were made, with guidance and oversight by the committee. The amendments provide for limited use by certain executive officers (those who hold the position of executive vice president or above) of corporate aircraft for personal reasons subject to pre-approval by the Chairman and CEO. The limited use of the aircraft cannot exceed \$75,000 in value each year for any of these executive officers, with a cap of \$150,000 for all of these executive officers. The Chairman and CEO is required by Sprint's security policy to use Sprint aircraft in lieu of commercial aircraft for all travel, including personal travel.

On March 15, 2005, the committee granted new performance based equity awards to Messrs. Forsee and Lauer. A combination of performance based RSUs and premium priced stock options were granted. The number of RSUs subject to the awards: (1) is based upon targeted financial performance that must be achieved, irrespective of the intervention of the proposed merger with Nextel, (2) will be adjusted based on actual achievement of 2005 EVA performance measures (calculated with reference to performance before the proposed merger with Nextel if the merger is completed before the end of 2005), (3) could vary between 0 – 200% of the number of units granted, (4) will vest 100% on the third anniversary of the grant date, and (5) is subject to discretionary review by the committee to assure appropriate performance and has been initially set at 62,000 RSUs for Mr. Forsee and 21,000 RSUs for Mr. Lauer. Additionally, the performance-based RSU awards will be forfeited if the Sprint Nextel merger is not completed.

The number of options granted was 165,000 for Mr. Forsee and 55,000 for Mr. Lauer. The exercise price for the stock options was equal to 110% of the market value of the underlying stock on the grant date. The premium priced options will vest 25% per year on each of the first through fourth anniversaries of the grant date and will be forfeited if the Sprint Nextel merger is not completed.

At the same time, the committee also approved an amendment to Mr. Forsee's employment agreement of March 19, 2003, which is effective and conditioned on the completion of the merger with Nextel. The amendment provides for: (1) an annual base salary of \$1,400,000, subject to annual review for possible increase (but not decrease), (2) an annual short-term incentive target opportunity of not less than 170% of base salary, for an initial target opportunity of \$2,380,000, with a maximum payout of 200% of the short-term incentive opportunity (the actual payout can range from 0 – 200% of the target opportunity), and (3) an annual long-term performance-based incentive opportunity having a \$10 million minimum target value for the first year following completion of the merger and a \$10 million guideline target value for the second year. If the merger is completed in 2005, the short-term incentive target opportunity for 2005 will be the sum of \$2,040,000 prorated for the portion of the year before the completion of the merger and \$2,380,000 prorated for the portion of the year after the completion of the merger. The new performance-based equity awards and the amendment to Mr. Forsee's employment agreement were made with the advice of independent outside counsel and the independent compensation consultants.

Stock Ownership Guidelines

The Sprint board also believes executive ownership of a meaningful financial stake in Sprint serves to align executives' interests with stockholders' interests. In 2003, the Sprint board established executive stock ownership guidelines that require certain executives to hold shares or share equivalents of Sprint stock equal to five times base salary for the CEO and one to four times base salary for executives at the Vice President level and above. Each executive is expected to meet this ownership level by the later of December 31, 2008 or the fifth anniversary of becoming an executive. In addition, these executives are expected to meet yearly interim stock ownership requirements. All 144 covered executives have met these interim requirements.

Gerald L. Storch, Chairman
Gordon M. Bethune
Irvine O. Hockaday, Jr.
Charles E. Rice

The information in this report shall not be deemed to be soliciting material or to be filed with the SEC under the Exchange Act or incorporated by reference in any document so filed, and is not subject to the proxy rules under, or to the antifraud liabilities of Section 18 of, the Exchange Act.